

# COUNTERDRUG IMPLICATIONS OF THE UNITED STATES LEAVING PANAMA

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## HEARING

BEFORE THE  
SUBCOMMITTEE ON CRIMINAL JUSTICE,  
DRUG POLICY, AND HUMAN RESOURCES  
OF THE  
COMMITTEE ON  
GOVERNMENT REFORM  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED SIXTH CONGRESS

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## COUNTERDRUG IMPLICATIONS OF THE UNITED STATES LEAVING PANAMA

FRIDAY, JUNE 9, 2000

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY,  
AND HUMAN RESOURCES,  
COMMITTEE ON GOVERNMENT REFORM,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. John L. Mica (chairman of the subcommittee) presiding.

Present: Representatives Mica, Barr, Souder, Hutchinson, Ose, Mink, and Schakowsky.

Also present: Representative Rohrabacher.

Staff present: Sharon Pinkerton, staff director; Charley Diaz, congressional fellow; Carson Nightwine, professional staff member; Ryan McKee, clerk; Lauren Perny and Brian Bobo, interns; Michael Yaeger, minority senior oversight counsel; Sarah Despres, minority counsel; Earley Green, minority assistant clerk; and Teresa Coufal, minority staff assistant.

Mr. MICA. Good morning. I'd like to call this hearing of the Criminal Justice, Drug Policy, and Human Resources Subcommittee to order.

This morning we'll be conducting a hearing entitled, "Counterdrug Implications of the United States Leaving Panama." We have two panels, and we're going to go ahead and proceed with the consent of the minority. We should be joined by other Members, but we do have a full hearing so we want to keep this proceeding moving.

The order of business will be opening statements, and I'll start with my opening statement. I'll yield to other Members as they come. And with the consent of the minority, we will leave the record open for a period of 2 weeks for additional statements, information or background that may be submitted as part of this hearing record.

It's been about 6 months since the United States military has left Panama in accordance with the 1977 Carter-Torrijos Treaty. Today, this subcommittee will examine some of the implications of that move on our drug interdiction and eradication efforts in that region.

Located at the nexus of two oceans and two continents, the country of Panama holds a uniquely strategic importance in the free flow of trade in the Western Hemisphere. Unfortunately, that trade also has come to include the trafficking of contraband such as ille-

gal drugs, illegal arms, black market goods, and also extensive money laundering.

Over the years, a critical element of our international drug eradication and interdiction efforts has been our operations which have been based in former United States bases in Panama. That all came to a grinding halt last year with the turnover of the Panama Canal. By the end of 1999, the United States had abandoned the Panama Canal and the 360,000 acre Canal zone, as well as military property consisting of 70,000 acres and 5,600 buildings worth an estimated \$10 to \$13 billion. Since the late 1980's, these bases have served as the cornerstone of the U.S. military's counterdrug effort in that region.

Today, the United States can no longer fly planes out of Howard Air Force Base. Likewise, we can no longer base our ships at Rodman Naval Base. We can no longer coordinate our regional counterdrug efforts out of Fort Sherman. Somehow I still don't understand why this administration wasn't able to foresee this predicament and develop contingency plans. I know we from the subcommittee have done everything possible to highlight what we knew would be problems in this area with the close-down of those bases. Instead, we find ourselves today playing a catch-up game, and we have a long way to go to make up for the losses of these bases and strategic forward operating anti-narcotics efforts.

Over a year ago, on May 1st, 1999, the United States ceased all surveillance flights from Howard Air Force Base in Panama from which the United States had flown more than 2,000 anti-narcotics flights per year. Over the past 12 months, the United States has signed 10-year agreements with Aruba, Curacao and Ecuador, and most recently with El Salvador, to provide alternative staging areas, known as forward operating locations [FOLs], for both our military and law enforcement surveillance aircraft.

Two of the 10-year agreements have been ratified. The El Salvador agreement still lacks parliamentary approval. But, in fact, we once operated out of just one base, and now the United States may be forced to maintain and finance bases in four locations.

Also, we're faced with mounting construction costs and operational costs for these forward operating locations at the new operating locations, and every time we have folks appear before the subcommittee the estimates of cost of operating those bases climb.

Even more troubling, the date at which all four FOLs will be fully operational keeps slipping. The most recent guess is that we will not be fully operational until the year 2002. Meanwhile, drug-laden boats and planes keep heading toward our shores undetected. Each of these deadly craft carry death and destruction bound for the U.S. streets and neighborhoods.

I hope to hear from today's administration witnesses about our latest cost estimates, the latest timeline for getting these FOLs fully operational. I also want to know the likelihood that these four FOLs will make up for the extensive coverage loss that we experienced with the shutdown of Howard, including a breakdown of coverage in the source zone and also the transit zone.

I chaired a similar hearing on Panama 1 year ago where we discussed the implications of losing Howard Air Force Base. At that hearing I stated that, "hopefully, we can avoid a near-term gap

with the damaging loss of critical coverage.” Obviously, this administration missed the mark. Unfortunately, the gap is now something we’re experiencing and it’s very real.

By SOUTHCOM’s own admission in a letter to the subcommittee sent yesterday by Charles Wilhelm—and I invited him to testify today. I hope the Members will take a look at this. But his words are that we estimate our capability will continue to be approximately one-third of what it was in Panama. This is an incredible gap. I think it’s one reason that we have drugs, particularly a resurgence of cocaine now, incredible quantities of heroin, pouring into our shores.

Again, according to our own SOUTHCOM Commander, we are two-thirds shy of what is needed. I understand that a majority of this shortfall is in the critical source zone countries of Colombia, producing 80 to 90 percent of the cocaine now, by the administration’s own estimates, and some 70 percent of the heroin on our streets that’s seized, according to DEA estimates—Peru and also Bolivia, and their efforts to eradicate the cocaine production are now also being harmed we’ve learned from recent reports. These are the very countries that need our support and need our help right now. We must minimize the extent and duration of this gap in coverage.

Instead of closing the gap, though, this administration reduced the number of counterdrug flights by a staggering 68 percent from 1992 to 1999. Again, I refer to the document requested. I didn’t conduct the study. GAO did, upon our request, citing a 68 percent reduction in these anti-narcotics surveillance flights in the period from 1992 to 1999.

I read in today’s New York Times that we have increases in drug use, particularly cocaine, marijuana and other hard drugs of our young people. I think the CDC—and we may ask them to come in and testify now—but from 1991 to current, dramatic increases in use. And again we have a reduction in our counternarcotics effort, most effective tool for stemming these shipments.

The number of ship days also, according to this report, dropped 62 percent.

It is painfully clear that this counternarcotics effort is not a priority, top priority for this administration. And I don’t know why. As we all know by now, a real shooting war, largely financed by the illegal drug trade, is raging just south of Panama in the Republic of Colombia. In fact, you can’t have a meaningful discussion of the drug situation in Panama without considering what is happening in Colombia.

I know the House has acted. I salute my colleagues in working with me and the Speaker and others in trying to get the \$1.6 billion passed and from the House to the Senate. It’s shameful that the Senate, including the Republican leadership there, have not acted on that measure. I want to make sure I put the blame on everybody today.

In the past there have been reports of significant Colombian rebel activity in the Darien Province of southern Panama. Now with the United States withdrawal from Panama and the recent focus on Colombia, we have already witnessed an increase in narco-

terrorist incursions into Panama. With a weak and corrupt police force, Panama is now ripe for takeover by narco-dealers.

At last year's hearing, I voiced concern about the expanding FARC guerilla presence in Panama. I warned that, absent an effective United States policy—and this is my quote a year ago—"the United States will be back in Panama at some point in the future, and at great cost and sacrifice, to preserve the sanctity of the Canal and protect our national interests." 1 year later, my concern about this deteriorating situation is even greater.

We'll probably hear more about this, but I think everyone is focusing today on a report, and I honestly have not read the entire report, only seen press accounts, this headline—and this happens to be the Washington Times, but it's in the Post and the New York Times—"With U.S. Gone Panama Is a Mecca for Drug Trafficking." And we'll hear more about that report.

From my perspective as chairman of the subcommittee, I don't think this administration has taken this threat seriously. How could this administration turn its back totally on direct tenders that captured key Panamanian court contracts at Colon? And the administration officials, including General McCaffrey, have confirmed to me both publicly and privately that these were corrupt tenders that allowed these contracts to go to Chinese interests and zero out United States competitors.

Today, we have a complete lack of engagement by this administration and Panama, and the region is in turmoil. Colombia is in chaos, Venezuela is thumbing its nose at the United States, and the administration is undermining our best ally in the anti-narcoterrorist effort, President Fujimori of Peru.

This complacency is jeopardizing stability in the region, and it is also a threat to our national security. The threat to the region and the Canal is real, and we need to address it.

In the aftermath of the United States efforts to apprehend the Panamanian dictator Manuel Noriega in 1989—and just as a lesson of history we went after him for being involved in drug dealing and corruption—we insured that the corrupt Panamanian Defense Force [PDF], was dissolved. In fact, we had their military dissolved by that action. And Panama changed its constitution to prohibit a standing military.

Now the security of that country is in the hands of the institutionally weak Panamanian National Police force. And if we're to believe these reports, they've been very seriously corrupted and infested by narco-drug traffickers.

Experts contend that this modest, ill-equipped force does not have the capacity to effectively monitor or guard the southern border with Colombia. In fact, despite President Clinton's certification of Panama last year, I have received troubling reports that drug seizures in Panama dropped by some 80 percent in 1999 from 1998.

In Panama, we face serious challenges in the months and years ahead, challenges that in fact will impact our ability to keep drugs, illegal narcotics off our street and from our children. With the pull-out of the United States military from Panama, it appears to me we'll only see more increases in drug trafficking, narcoterrorism, illegal arms smuggling and money laundering in Panama and also throughout the region.



Hopefully, today's hearing will shed light on these issues and help us address some of them squarely, collectively and in a bipartisan fashion and effectively. The citizens of the United States and this hemisphere deserve no less.

In this region, if we recall from history, Teddy Roosevelt adopted the policy of "walk softly and carry a big stick". Unfortunately, historians may record the Clinton foreign policy for this region at this time as the "que pasa" era. And if you're not familiar with Spanish, que pasa is sort of a blase "what's happening" for a literal interpretation. And we do need to find out what's happening here today.

With those opening comments, I'm pleased to yield to the ranking member of our subcommittee, the distinguished lady from Hawaii, Mrs. Mink.

[The prepared statement of Hon. John L. Mica follows:]

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**THE SUBCOMMITTEE ON CRIMINAL JUSTICE,  
DRUG POLICY AND HUMAN RESOURCES**

HEARING ON  
**"Counterdrug Implications of the U.S. leaving Panama"**  
June 9, 2000

**OPENING STATEMENT**  
**Chairman John L. Mica**

It has been about six months since the U.S. military left Panama in accordance with the 1977 Carter-Torrijos Treaty. Today, this Subcommittee will examine some of the implications of that move on our drug interdiction and eradication efforts in the region. Located at the nexus of two oceans and two continents, the country of Panama holds uniquely strategic importance in the free flow of trade in the Western Hemisphere. Unfortunately, that trade also includes the trafficking of contraband such as illegal drugs, illegal arms, black market goods and extensive money laundering.

Over the years, a crucial element of our international drug interdiction and eradication efforts has been our operations from bases in Panama. That all came to a grinding halt last year with the turnover of the Panama Canal. By the end of 1999, the United States had abandoned the Panama Canal, and the 360,000 acre canal zone, as well as military property consisting of 70,000 acres and 5,600 buildings worth an estimated \$10-\$13 billion. Since the late 1980's, these bases have served as the cornerstone of the U.S. military's counterdrug effort in the region.

Today, the U.S. can no longer fly our planes out of Howard Air Force Base. Likewise, we can no longer base our ships at Rodman Naval Base. And we can no longer coordinate regional counterdrug efforts out of Fort Sherman. I still don't understand why this Administration didn't foresee this predicament and develop contingency plans. Instead, now we are playing catch-up and have a long way to go to make-up for these losses.

Over one year ago, on May 1, 1999, the U.S. ceased all surveillance flights from Howard Air Force Base in Panama, from which the U.S. used to fly 2,000 counter-narcotics flights per year. Over the past 12 months the U.S. has signed 10-year agreements with Aruba, Curaçao, Ecuador, and most recently with El Salvador, to provide alternative staging areas (known as Forward Operating Locations or FOL's) for U.S. military and law enforcement surveillance aircraft.

But, where we once operated out of just one base, we will now have to maintain four. And, the construction and operating costs for these FOL's are high and continue to climb. Furthermore, the date at which all four FOL's will be fully operational keeps slipping. The most recent guess is that we will not be fully operational until the year 2002. Meanwhile drug-laden boats and planes keep heading north, undetected. I hope to hear from today's Administration witnesses about the latest cost estimates and the

latest timeline for the FOL's. I also want to know the likelihood that these four FOL's will make up for the extensive coverage we lost with the shutdown of Howard including a breakdown of coverage in the source zone and the transit zone.

I chaired a similar hearing on Panama one year ago where we discussed the implications of losing Howard Air Force Base. At that hearing I stated that, "Hopefully we can avoid a near-term gap with a damaging loss of critical coverage." Obviously, this Administration missed the mark and the "gap" is now upon us. By SOUTHCOM's own admission in a letter to the Subcommittee sent yesterday by General Charles Wilhelm, "we estimate our capability will continue to be approximately one-third of what it was in Panama." So according to our own SOUTHCOM Commander, we are two-thirds shy of what is needed, and I understand that a majority of this shortfall is in the crucial source zone countries of Colombia, Peru and Bolivia, the very countries that most need our help right now. We must minimize the extent and duration of this gap in coverage.

Instead of closing the gap though, this Administration reduced the number of counter-drug flight hours by a staggering 68% from 1992 – 1999. The number of ship days also dropped by 62%. It is painfully clear that this counter-narcotics effort is not a top priority for this Administration. As we all know by now, a real shooting war, largely financed by the illegal drug trade, is raging just south of Panama in the Republic of Colombia. In fact, you can't have a meaningful discussion of the drug situation in Panama without considering what is happening in Colombia.

In the past, there have been reports of significant Colombian rebel activity in the Darien province of southern Panama. Now with the U.S. withdrawal from Panama and the recent focus on Colombia, there will likely be an increase in narco-terrorist incursions into Panama. At last year's hearing, I voiced my concern about the expanding FARC guerilla presence in Panama. I warned that, absent an effective U.S. policy, "the U.S. will be back in Panama at some point in the future, and at great cost and sacrifice, to preserve the sanctity of the Canal and protect our national interests." One year later, I still have those concerns.

From my perspective as Chairman of this subcommittee, I don't think this Administration has taken this threat seriously. Witness the fact that neither the President, nor our Secretary of State, could make the time to attend the Panama Canal transfer ceremony last December (an event that we knew was coming for over 20 years). More to the point, I still note a lack of engagement by this Administration in the region, and this complacency is jeopardizing stability in the region and our national security. The threat to the region and the Canal is real, and we need to address it.

In the aftermath of the U.S. efforts to apprehend the Panamanian dictator General Manuel Noriega in 1989, we ensured that the corrupt Panamanian Defense Force (better known as the PDF) was dissolved, and Panama changed its Constitution to prohibit a standing military. Now the security of that country is in the hands of the institutionally weak Panamanian National Police force.

Experts contend that this modest, ill-equipped force does not have the capacity to effectively monitor or guard the southern border with Colombia. In fact, despite President Clinton's certification of Panama last year, I have received troubling reports that drug seizures in Panama dropped by 80% in 1999 from 1998. In Panama, we face serious challenges in the months and years ahead – challenges that will impact on our ability to keep illegal drugs off our streets and from our children. With the pullout of the U.S. military from Panama, it appears to me that we will only see more increases in drug trafficking; narco-terrorism; illegal arms smuggling and money-laundering in Panama and throughout the region.

Hopefully, today's hearing will shed light on these issues and help us address them squarely, collectively, and effectively. The citizens of the United States and this hemisphere deserve no less.

Mrs. MINK. I thank the chairman for yielding to me at this time.

I do hope that the intent of these hearings today is to really find out what's happening in terms of the impact of the United States having no military base in Panama as a result of an agreement made some years ago. While I think it's useful to examine the situation of the pullout and what the impacts have been with respect to the United States and the region, I do think that the discussions about drug trafficking do not really lend any particular intelligence to the discussion of this subject.

I think it's quite obvious that with a pullout of our military bases that we would lose a very important command post in our counterintelligence activities. I've always taken the viewpoint that it's important for us to establish strong relationships and a sense of related responsibility toward the supply side of the various drugs from this region.

But in looking at the whole picture it's very important to understand that we have two sides to this issue, and that is demand and supply. And while we want to bring considerable pressure on these countries to perform better, it's really our responsibility to make the relationships work and to establish those counterintelligence posts that are meaningful.

We knew we had to pull out of Panama, and I think if there is a deficit of policy, it was not being able to establish on a much earlier timetable the replacement posts for the absence of the Howard Air Force Base. And so my emphasis has always been, what do we do here in the United States? What are we doing to curb demand?

I think that the Congress has a very large responsibility in this area, and we have been focusing heavily on our side to strengthen the law enforcement aspects of all the incursions of drugs coming into United States and also understanding that part of the demand policy is also what we do with respect to those who need treatment. If we can't do something about treatment of those who are addicted to drugs, then we're not really looking at the demand side.

So while I welcome this opportunity to discuss Panama today and to look at the implications of the loss of our military base there in Panama, I do think that a full view of this situation, rather than simply a condemnation of administration policy, has to take the balance, look and see what implications this means for our strengthened resolve to do more within the United States on the demand question.

Thank you, Mr. Chairman. I ask unanimous consent that my statement be placed in the record.

Mr. MICA. Without objection, so ordered. Thank you.

[The prepared statement of Hon. Patsy T. Mink follows:]

**Statement of Representative Patsy Mink  
Ranking Member, Subcommittee on Criminal Justice,  
Drug Policy, and Human Resources  
Committee on Government Reform**

**"Counterdrug Implications of the U.S. Leaving Panama"  
June 9, 2000**

Thank you, Mr. Chairman, and good morning to our two panels of witnesses. We are joined today on the first panel by Rand Beers, Assistant Secretary of State for International Narcotics and Law Enforcement Affairs; Ana Maria Salazar, Deputy Assistant Secretary of Defense for Drug Enforcement Policy and Support; General Charles Wilhelm, the commander-in-chief of the U.S. Southern Command; and William Ledwith, chief of international operations for the Drug Enforcement Administration. On our second panel, we will hear testimony from Dr. Tomas Cobal, a journalist and professor at the University of Panama. Welcome to you all.

We are here today to explore the impact of the U.S. military's departure from Panama on our efforts to combat illicit drug trafficking. The U.S. had a significant military presence in Panama until the end of last year, when the Panama Canal Treaty of 1977 required the withdrawal of U.S. military personnel. There were ten major military installations in Panama that contributed in different ways to the U.S. effort to combat illegal drugs. Howard Air Force Base launched approximately 2,000 flights each year for the detection, monitoring, and tracking of trafficking activities in the source and transit zones. Other facilities also supported interdiction efforts by countries in the region and the U.S. Coast Guard, boarding and searches of maritime vessels, and jungle training for counterdrug units.

The U.S. presence in Panama served a number of important national security objectives, and our departure created serious challenges. Thanks to General Wilhelm and others from the Defense and State Departments who worked very hard to deal with this loss, we are close to providing detection and monitoring out of three Forward

Operating Locations that is comparable to the capabilities we had out of Howard Air Force Base and other facilities in Panama.

I see little point in continuing to lament the loss of Howard Air Force Base. The job now is to move forward. Congress needs to complete conference work on military construction funds for the Forward Operating Location in Manta, Ecuador, and to move forward with the Administration's plan to confront drug production and trafficking in Colombia.

Thank you, Mr. Chairman. I look forward to hearing the testimony of our witnesses today.

Mr. MICA. I'll recognize the vice chairman of our panel, Mr. Barr, the gentleman from Georgia, at this time.

Mr. BARR. Thank you, Mr. Chairman; and thank you for convening these two very distinguished panels today to continue what you know must be a long-term, sustained focus on Panama and the surrounding problems in the Caribbean and South America.

This is not a problem, like many here in Washington, that somebody will focus on for 1 day of hearing and then everybody will go back and do their other things and forget about it. That happens far too often, and that's why we find ourselves frequently in crisis situations here in the Congress or facing crisis situations elsewhere.

You've taken a different tack, and I commend you for that. You realize that the problems with regard to drug trafficking and money laundering and narco-terrorist activity in Central America, in Panama, in Colombia, and elsewhere is something that must be attacked every single day of the year, year in and year out. And the problems that we're facing in Panama largely now are a result of the vacuum created by the departure and turnover to Panama of all military—all United States personnel and facilities and the lack of planning by this administration to have alternatives such as operational FOLs ready to go and to hit the ground running the day after the turnover are very, very severe and continuing.

And while I do appreciate the steps that have been taken and I recognize that these are not easy contracts to negotiate and to go so in a manner that is respectful of taxpayer money. Previous hearings that we've had have indicated that things could have moved much more quickly if they had been started much earlier as well.

But, be that as it may, there's nothing we can do at this point to make up for prior shortcomings. What we have to do is continue to focus on the problems created by the vacuum when the United States departed Panama lock, stock and barrel and to see if there are some steps that can be taken both in the civilian sector with regard to encouraging—and this might be something that we can look at legislatively as well as look United States companies to become more active in Panama.

It also requires a look at the very distressful increase in the Communist Chinese influence and interest in Panama.

As we all know, Panama has been, over the years, very, very courageous, more courageous than our country, as a matter of fact, in recognizing the free people of China and in providing diplomatic recognition to the Republic of China, not the Communist People's Republic of China. This has been a sore point for Beijing for many years, and they have been mounting over the last few years a much more sustained effort to switch allegiance, and I do hope and encourage the people of Panama to resist such entreaties.

But the Communist Chinese presence, which took a quantum leap forward with what I believe was a very corrupted process of negotiations, has given them a foothold through Hutchison Whampoa on both ends of the Panama Canal which certainly we anticipate that they will expand. There would be no reason for them to be there if they didn't plan on expanding, and that has been the nature of Communist Chinese presence in other parts of the world. This is something we do need to focus on.

The administration is not—the President, in perhaps a Freudian but probably very accurate slip of the tongue, a number of months ago indicated that he seemed pleased with the Communist Chinese presence there, and they would run the Canal properly. Many of us up here, including, I know, you, Mr. Chairman, and certainly myself and Mr. Rohrabacher and I suspect all members of this panel, take a much different view. We are concerned about the increased Communist Chinese focus in Panama, just as we are concerned about the danger posed to the Panamanian people by incursions by narco-terrorists, by the FARC and ELN, in the southern provinces of Panama where it borders on its neighbor to the south.

These are matters that do impact us, and they impact us in many, many different ways, including the security of the Canal. If commercial shippers do not believe that the security of the Canal will be maintained long into the future and indefinitely into the future, if they foresee problems, then they are going to start looking at alternatives. Once they start doing that, much of the revenue currently derived by Panama from the Canal will start to dry up. So that's something that neither country certainly wants to see happen.

I also hope, Mr. Chairman, that we can begin to focus on the problem of the cleanup of the target ranges in Panama and the testing ranges. As I understand it from talking with people both in Panama who have traveled down there and experts, this matter has not yet been resolved, and I think we could go a long way toward improving the climate for future negotiations and current negotiations between our two countries for a more cooperative physical presence down there if we can get this matter resolved as well.

So there are many, many facets to the problems that you are continuing to focus on, Mr. Chairman. I've just enumerated a few of them. You have also.

I read the same press reports this morning of the intelligence estimate, the law enforcement officer estimate. This is very, very troubling, although not terribly surprising. It, too, is the result of lack of foresight by the administration in really laying the groundwork to address these problems that we all knew would crop up.

But, again, I hope that we can work and I anticipate we will continue to work with the administration to resolve these. Certainly we would have preferred to see it done sooner rather than later, but it is not too late. And you are playing, through your convening—through this hearing today and I know future hearings, Mr. Chairman, playing a key role in that, and I thank you.

Mr. MICA. Thank the gentleman.

I'll now recognize Mr. Ose from California.

Mr. OSE. Thank you, Mr. Chairman. I think I'll pass on the opening statement.

Mr. MICA. Thank you.

The gentleman from Arkansas, Mr. Hutchinson.

Mr. HUTCHINSON. I pass and look forward to the witnesses' testimony.

Mr. MICA. The gentleman on our panel, Mr. Souder from Indiana.

Mr. SOUDER. Pass.



Mr. MICA. We're also joined by a member of the International Relations Committee who's taken an active interest in this hearing; and, without objection, I'm pleased to recognize Mr. Rohrabacher from California at this time.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

As you know, I've had a very deep interest in Panama and in the national security interest of our country that I believe are being put at risk by some of our policies in Panama. And I want to thank you for conducting this hearing on the national security threats that are developing in the Panama Canal area which remains a key strategic choke point for the Americas.

When I visited Panama last summer I was stunned by the complete absence of American security forces in what had been for nearly a century America's military outpost protecting our Nation's vulnerable southern flank. And I had been to Panama several times during the Reagan years when I worked at the White House, and those of us who visited Panama in the past realize how significant a military presence America had there and what role that presence played in the stability and played for a positive factor in Latin America and in that region.

Today, Communist China and transnational criminals are filling the strategic vacuum created by the total withdrawal of the United States of America from Panama. Major ports on both ends of the Canal are now under the control of a Hong Kong-based Chinese company, Hutchison Whampoa, which has close ties to the Communist Chinese Government and is partly owned by an entity which is itself wholly owned by the Communist Chinese regime, the China Resources Enterprises, which is also very well known as a front for the Chinese military intelligence.

I am submitting for the record a copy of the Panamanian Government's official open bid document, and it shows that American companies initially outbid the Chinese companies for control of the port facilities in both ends of the Panama Canal but were denied the port contracts through what our State Department has called, a highly irregular process.

[The information referred to follows:]

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OFFICIAL TRANSLATOR  
PANAMA CANAL COMMISSION

**Official Gazette**

Official State Publication

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Hutchinson  
Parliament*

Year XCIII. Panama, Republic of Panama, Tuesday, January 21, 1997. No. 23,208

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(Of January 16, 1997)

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operation, administration, and management of the container,  
roll-on/roll-off, passenger, bulk and general cargo terminals  
at the Ports of Balboa and Cristobal is approved"

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LEGISLATIVE ASSEMBLY

LAW No. 5

(Of January 16, 1997)

Whereby the contract between The State and  
Panama Ports Company, S.A. for the development, construction,  
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roll-on/roll-off, passenger, bulk and general cargo terminals  
at the Ports of Balboa and Cristobal is approved

THE LEGISLATIVE ASSEMBLY

## DECREES:

ARTICLE 1. The contract between The State and Panama Ports Company, S.A., for the development, construction, operation, administration, and management of the container, roll-on/roll-off, passenger, bulk and general cargo terminals at the Ports of Balboa and Cristobal is approved in all its sections with the following text:

## CONTRACT

ARTICLE 2. Between the undersigned, to wit: Raul Arango Gasteazoro, Minister of Commerce and Industry, representing the Republic of Panama, duly authorized for this act by Cabinet Council Resolution No. 237 of November 27, 1996, in exercise of the powers conferred by paragraph 3 of Article 195 of the Constitution of the Republic of Panama, hereinafter referred to as The State, on the one hand, and on the other, Paul R. C. Rickmers and Enrique A. Jimenez, Jr., acting jointly in their respective capacities as General Manager and Legal Representative of Panama Ports Company, S.A., a corporation organized and operating pursuant to the laws of the Republic of Panama, registered in the Public Registry of the Republic of Panama, Microfilm Section (Mercantile) under Microjacket 319669, Roll 50940, Frame 0002, duly authorized for this act by the Resolution of the Board of Directors of said corporation of November 21,

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1996, hereinafter referred to as THE COMPANY, who agree to enter into this Concession and Investments Contract, hereinafter referred to as The Contract, under the following

CLAUSES

1. LEGAL BASIS OF CONTRACT

Paragraph 3 of Article 195 of the Constitution of the Republic of Panama, whereby the Cabinet Council is authorized to enter into contracts such as this one authorizing the concession.

Article 153 of the Constitution of the Republic of Panama, whereby the Legislative Assembly is authorized to approve this Concession Contract.

2. GENERAL CONDITIONS

2.1 Concession by The State

Under the terms of this contract, THE STATE grants a concession to THE COMPANY for the development, construction, operation, administration, and management of the container,

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roll-on/roll-off, passenger, bulk and general cargo terminals and their respective infrastructures and installations at the Ports of Cristobal and Balboa, whose infrastructure, facilities, and physical areas are described and detailed in Annex I, which is an integral part of this contract (and which, for the purposes of this contract will hereinafter be called the Existing Port), expression which shall include all areas, facilities, and installations set out in Annex I). It is agreed between the parties to this contract that all the Annexes are an integral part of same.

In addition, THE STATE hereby awards an Option (The Option), on the same terms and conditions of this contract, to THE COMPANY, for the development, construction, operation, administration, and management of the land areas, facilities, and installations known as Diablo and Telfers Island, also detailed in Annex I, areas which are also part of this contract (and which for the purposes of this contract will hereinafter be called the Future Extension, which, together with the Existing Port set out in Annex I, shall hereinafter be called The Ports). THE COMPANY has the right to exercise The Option at any time during the first fifteen (15) years of this contract, counted from its effective date, upon written notice to The State.

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No additional consideration is payable on the grant of The Option or the legal exercise of same, and no additional rent will be payable with respect to the Future Extension.

It is understood that at all times The State shall consult The Company before granting any concession on the Future Extension, and obtain its approval for any concession. Approval may only be withheld by The Company if The Company determines that such concessions are for activities similar to those granted under this contract (including, but not limited to cargo handling, transportation, container freight stations, and any other facility associated with general port operations). In addition, the respective concession contracts shall contain as a limitation, the right and obligation of The State to terminate such contracts as soon as reasonably practicable, at no cost to The Company, upon The Company's exercise of The Option to use the Future Extension, pursuant to the terms of this contract.

The State shall indemnify and maintain indemnified The Company against all and any claims filed against The Company, if any, by parties to such concessions or by third parties affected by the termination of same.

During the term of this contract and its extension, The

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Company shall have the exclusive right to develop, build, operate, administrate, and manage The Ports, pursuant to the terms of this contract.

The Company may conduct its operations, transactions, negotiations, and activities in general, be they local or international, with any individual, corporation, government agency, private group, or mixed enterprise.

Also, The Company may use the services of contractors as deemed necessary for the development, construction, operation, administration, and management of The Ports.

For the purpose of its activities, The Company may transport and handle all kinds of merchandise, products, and by-products, raw materials, and any other kind of lawful articles, and it shall have the right to upgrade and continue developing the facilities and installations of The Ports for the duration of the concession and the extension of this contract. In addition, The Company will have the right to conduct any business and activity which, from time to time, may be incidental and/or ancillary to the development, management, administration, and operation of The Ports.

It is agreed that during a period of three (3) years from the effective date of this contract, The State shall not grant the right to operate quay-side cargo handling businesses (including general cargo, container, passenger, bulk and roll-on/roll-off, but excluding bunkering activities) in the area of the Rodman Naval Station to any individual, corporation, or incidental party (hereinafter indistinctly referred to as "third parties") without giving The Company right of first refusal to operate this business in the Rodman Naval Station, on the same terms and conditions, or on terms and conditions no less favorable than those offered by such third party or parties (as the case may be). Upon The State receiving the terms and conditions of an offer by a third party to operate such business on terms and conditions that are considered acceptable to The State, The State shall provide the said terms and conditions of such offer to The Company, and The Company shall have thirty (30) calendar days to consider such terms and conditions. If The Company makes an offer to The State on the same terms and conditions, or on terms and conditions no less favorable than those offered by the third party, The State shall award the concession to operate such business to The Company.

If The Company does not make an offer within the said thirty (30) calendar days, The State may grant such concession to the



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third party on terms and conditions that are no more favorable than those provided to The Company for consideration.

From the effective date of this contract, the Existing Port and Future Extension, as defined in this contract and detailed in the description and maps contained in Annex I of this contract, with the exception of any public thoroughfares, shall become a Bonded Area which will enjoy all fiscal and customs benefits afforded under the laws of the Republic of Panama.

It is agreed that The Company will have the right, at any time, to fence, at its entire discretion, the referenced areas herein declared Bonded Area.

The State shall ensure that all government entities comply with the obligations set out in this contract, including those that render public services, and third parties which in the future may provide any public service or activity as a result of privatization.

#### 2.2 Concessions previously granted by the National Port Authority

The Company will take charge of all concessions granted by

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the National Port Authority which will not be retained by this government agency in the Existing Port. Annex III of this contract lists the concessions received by The Company and those concessions retained by the National Port Authority within the Existing Port. The State shall guarantee to The Company the usufruct of all land and marine concessions located within the Existing Port, as set out in Annex I. The National Port Authority shall maintain the usufruct of the concessions which are located within the Future Extension until such time as The Company requires the same for its operations.

It is understood between The State and The Company that The Company will receive all the revenues derived from those concessions within the Existing Port that are retained by The Company.

Additionally, The State shall transfer and pay to The Company, as agreed between the parties by a separate agreement signed between The Company and the General Director of the National Port Authority, duly authorized by the Executive Committee of that government agency, the funds derived in revenue from those concessions (including any maritime service concessions) retained by The State, and from those subsequently granted or renewed by The State whose infrastructures and

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installations The Company has the responsibility of maintaining, and from those concessions that in any form restrict the use by The Company of the Existing Port.

The agreed revenue funds shall be transferred and given by The State to The Company throughout the duration of this contract and its extension, regardless of any changes in the terms of those concessions.

The State has provided to The Company in Annex V all the information and documentation regarding the liabilities and obligations, if any, which The Company will assume from the concessions that The Company will retain in the Existing Port. In the event that the relevant documentation is not fully provided, is inaccurate, or does not give a true and fair view of the financial and commercial position of such concessions, then any subsequent costs, losses, or liabilities incurred by The Company, and determined by The Company in consultation with The State, shall be reimbursed by the State to The Company. In this respect, The Company shall provide a written requirement for payment to The National Port Authority. If The State does not pay the corresponding amount within a period of ninety (90) calendar days from the receipt by the National Port Authority of the referenced payment requirement, then The Company will have

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the right to deduct the amount of said costs, losses, or liabilities from the variable annuity payable to The State pursuant to clause 2.3.2 of this contract, and any outstanding balance remaining after such deduction will be deducted by The Company from the fixed annuity payable to The State pursuant to Article 2.3.1 of this contract until such time as The Company recovers all such costs, losses, or liabilities.

In the event of termination of this contract for whatever reason, The State shall pay any outstanding amount to The Company in respect of such costs, losses, and liabilities within thirty (30) calendar days from the date of such termination.

### 2.3 Payments by The Company

By virtue of the concession granted herein, The Company agrees to pay The State the following amounts, made payable to the National Treasury through the Ministry of Finance and Treasury, after a transitional grace period of three months from the effective date of this contract, hereinafter called the "First Payment Date," period during which The Company will become acquainted with the operation of The Ports:

#### 2.3.1 Fixed Annuity

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An annuity in the amount of TWENTY-TWO MILLION TWO HUNDRED THOUSAND BALBOAS (B/. \$22,220,000.00), in equal monthly installments payable upon the closing of each month, with the first installment payable one month after the First Payment Date.

The parties agree that, at the beginning of the sixth year after the First Payment Date, and thereafter at the beginning of each consecutive five-year period of this contract and the extension thereto, the annuity payment under this article shall be reviewed based upon the average consumer price index of the previous five years published by the Office of the Comptroller General of the Republic of Panama, up to a maximum adjustment of 10 percent over the last annuity payment. This review will establish the fixed annuity payment for the next five years.

#### 2.3.2 Variable Annuity

A variable amount equal to ten percent (10%) of the gross revenues from all sources of income derived from the activities carried out by The Company in The Ports, to be calculated and paid monthly at the closing of two months, with the first installment payable two months after the First Payment Date.

**2.4 State equity in The Company**

The State shall receive from The Company, made out to the Ministry of Finance and Treasury, at the moment of entry into force of this contract, a fully paid and unencumbered participation equal to ten percent (10%) of the stock of The Company. The stock participation stated in this article shall be subject to the following terms:

- a. The State will have the right to appoint one member of the board of directors of The Company, who shall be appointed by the Executive Branch.
- b. The State shall be exempt from any obligation regarding contributions and payments, in the event of capital increases, or any other cause.
- c. In the case of a capital increase, The Company shall make the appropriate adjustments in order to maintain the stock participation of The State in The Company at 10%.
- d. The stock participation received by The State may not be assigned, transferred, or subject to any lien.

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**2.5 Company Investment and Development Plans**

The Company shall provide The State the development plan for the Existing Port, indicating the investments to be made and the respective amounts, as evidence of the expenses and investments to be made.

In this respect, The Company agrees to invest (expression that includes self-financing, financing through debts to third parties, leasing, operational leasing, or any other source of credit that may be obtained to be invested, except operation and maintenance costs of The Company) in The Ports, during the first five (5) years from the effective date of this contract, a total amount of at least FIFTY MILLION BALBOAS (B/. 50,000,000.00), directly or indirectly through its subsidiaries or affiliates, or any other investor or investors, or through external financing from banks or other financial institutions. The following shall be included as part of said investment:

- a. Investment to habilitate the Port of Balboa to accommodate post-Panamax vessels.
- b. Repair of cranes at the Port of Cristobal to bring them up to their normal level of performance based on factory

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specifications. All container cranes shall have sufficient support equipment to ensure a minimum working capacity of twenty-five (25) container movements per crane-hour.

c. The Company shall furnish the additional equipment that may be necessary, based on the development plans of The Ports.

d. Direct, indirect, or development through third parties of a cruise ship passenger terminal at The Ports.

#### 2.6 Employees

##### 2.6.1 Termination of Labor Relation by The State

a. The State shall terminate, before the effective date of this contract, the labor relations with all employees of the National Port Authority in the Existing Port and of the employees of the Main Office of the National Port Authority directly involved in the operation of the Existing Port whose services the National Port Authority will no longer require. For the purposes of this contract, all these employees will hereinafter be called "The Employees."

b. Upon approval of this contract by the Legislative



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Assembly, The State, through the National Port Authority, will be obligated to pay indemnity to The Employees in the agreed amounts, and will be authorized to make such payments to each such employee from a loan to be advanced by The Company, in accordance with clause 2.6.2, in the manner and terms established herein, and from such additional state funds as The State may require to pay the indemnity.

c. Once all the employees are indemnified in accordance with the previous paragraph and with clause 2.6.2, all individual and collective relations between The Employees and The State shall end, including the prevailing internal relations with the National Port Authority.

d. The Company will have no obligation to enter into any relationship with the existing labor unions of the ports of Balboa and Cristobal or their representatives. It is nonetheless agreed that the employees of The Company shall enjoy full union freedom.

For labor purposes, the granting of this concession neither constitutes nor produces a replacement of the employer.

e. During the first two years of operations, The Company

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will not be obligated to enter into collective bargaining agreements.

f. In consideration of the fact that The Company will develop a professional relationship with its employees, to include training programs and productivity incentives, Decree No. 20 of September 25, 1980, which established the minimum wages for the corregimientos of Ancon and Cristobal; Laws 39 and 40 of 1979, and all other laws that regulate labor relations in the Ports of Cristobal and Balboa will be rescinded as of the date of publication of this contract in the Official Gazette after its approval by the Legislative Assembly. The State and The Company will enter into negotiations to submit to the Legislative Assembly proposed amendments to Law 34 of 1979 that will reflect the standards required of an efficient port operation.

g. The State is responsible for the continued operation of the Existing Port until the effective date of the contract, which means that the necessary employees of the Existing Port shall continue working for the government until that time to ensure the efficient continuity of operations.

#### 2.6.2 Loans by The Company

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The Company agrees to advance to The State, upon publication of this contract in the Official Gazette, an interest-free loan in an amount up to THIRTY MILLION BALBOAS (B/. 30,000,000.00) to be used exclusively to pay the required indemnity to The Employees. The Company shall deposit said amount in an escrow account in the National Bank of Panama, under the condition that said funds will be used exclusively to compensate The Employees, in accordance with the indemnity calculations prepared on a case-by-case basis by the National Port Authority with the approval of the Ministry of Labor and Social Welfare and The Company.

The indemnity calculations and their approval by the Ministry of Labor and Social Welfare and The Company must take place prior to the publication of this contract in the Official Gazette.

The funds corresponding to the terminations shall be distributed to The Employees directly by the National Bank of Panama by the effective date of this contract, at no administrative cost to The Company, after receiving from the National Port Authority the indemnity calculations for each worker and a list, duly signed and approved by the Office of the Comptroller General of the Republic, to include all The Employees

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and the amount of indemnity to be paid to each. The Company will have the right to supervise the distribution of the indemnities by the National Bank of Panama to The Employees, directly or through an agent appointed by The Company.

The State shall provide The Company with receipts signed by each employee evidencing the receipt of their final payments due in recognition of their past work relation.

The interests derived from such account until the moment of the final disbursement shall be kept in favor of The Company. Said interest and the balance of the loan that is not distributed shall be released to The Company no later than the fifth day after the effective date of this contract.

The parties agree that if The State pays The Employees the total amount of the compensation prior to the date of publication of this contract in the Official Gazette, The Company shall not be obligated to deposit in the referenced escrow account the total amount of the loan up to the amount of Thirty Million Balboas (B/. 30,000,000.00), but in its place it will advance the loan up to the sum of Thirty Million Balboas (B/. 30,000,000.00) directly to The State, payable to the National Treasury through the National Port Authority, after the publication of this

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this contract, which is an integral part of same.

In the event that The Company incurs in any losses, damages, or expenses as a result of any existing obligation, liability, or debt related to the equipment, determined by The Company in consultation with The State, the latter shall reimburse The Company the corresponding amounts for such losses, damages, or expenses. In this respect, The Company will submit to the National Port Authority a written request for payment. If The State does not pay The Company the corresponding amounts within a period of ninety (90) calendar days, counted from the receipt by the National Port Authority of the referenced pay requirement, The Company will have the right to deduct the amount of such losses, damages, or expenses from the variable annuity payable to The State in accordance with clause 2.3.2, and any outstanding balance remaining after said deduction will be deducted by The Company from the fixed annuity payable to The State in accordance with clause 2.3.1 of this contract until such time as The Company recovers all the corresponding loss, damage, or expense.

In the event that such losses, damages, or expenses are the result of debts or liabilities on the equipment, The Company and The State shall resolve their differences by an amicable agreement. If they do not reach an agreement within fifteen (15)

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calendar days from the first written notification to The State, the parties are hereby obligated to submit the cause to arbitration in accordance with clause 3.4 of this contract.

In the event of termination of this contract for whatever reason, The State shall pay any outstanding amount to The Company in respect of such losses, damages, and expenses within thirty (30) calendar days counted from the date of termination.

#### 2.8 Authority to Transfer Rights

The Company may totally or partially assign or transfer all its rights and obligations under the present concession agreement or the activities derived herein, as long as it is to Panamanian corporations or foreign corporations duly registered to conduct business in the Republic of Panama.

When the assignment or transfer be in favor of a subsidiary or affiliate of The Company, it shall suffice for The Company to communicate this fact in writing to The State.

When the assignment or transfer be in favor of third parties which are not subsidiaries or affiliates of The Company, prior

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authorization will be required in writing from the Cabinet Council, such authorization not to be unreasonably withheld.

The assignment, transfer, or subcontracting of this contract shall not generate any type of tax, duty, contribution, compensation, or encumbrance in favor of The State.

For the purposes of this contract, subsidiary or affiliate corporations of The Company include, without limitation, those which, although maintaining corporate individuality, are dedicated to the same activities to which The Company devotes itself, or to complementary activities related to the operation of The Ports.

#### 2.9 Duration of the Concession

This contract shall have a duration of twenty-five (25) years, counted from the date it enters into force. The parties agree that this contract will be automatically extended for an additional period of twenty-five (25) years under the same terms and conditions, provided that The Company has complied with all its basic obligations under this contract.

#### 2.10 Rights of The Company

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Without prejudice to the general rights of concession granted herein, for the purpose of facilitating the execution of this contract, The State grants to The Company, its subsidiaries, affiliates, and assignees, all rights inherent and ancillary to the port operations, in The Ports, including, without limitation, the following rights:

- a. To carry out the improvements of The Ports in accordance with the provisions of this contract, including the design, engineering, studies, analyses, evaluation, construction, development, administration, and management of same, either directly or indirectly through local or international contractors.
- b. To transport, by any means, to or from the territory of the Republic of Panama, containers, cargo, products, merchandise any other lawful product.
- c. The right to have and operate under a separate concession from the National Port Authority, towboats and working vessels, and ship repair and pilotage services.
- d. To store containers and cargo and operate container cargo stations, container repair facilities, installations, and



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other marine equipment, and any other ancillary services for the purpose of this contract.

e. To build, operate, administrate, manage, control, subcontract, and use at its own discretion within The Ports, in consultation with The State, all highways, roads, and railroad facilities and infrastructure (without competing with the operation of the railroad between the ports of Balboa and Cristobal), including the right of The Company to reassign Diablo Road as a private thoroughfare, rather than a public street, and the right to divert the same at the expense of The Company, as well as the right to divert Gaillard Avenue (a public thoroughfare), at the expense of The State, if this were necessary for the efficient operation of the Port of Balboa, cost that will be determined by The Company and submitted to the prior approval by The State. The State shall reimburse The Company the amounts corresponding to the referenced cost. In this respect, The Company will submit to the National Port Authority a written request for payment. If The State has not paid The Company the corresponding amounts within ninety (90) calendar days, counted from the receipt by the National Port Authority of the referenced request for payment, The Company will have the right to deduct the amount of such cost from the variable annuity payable to The State in accordance with clause 2.3.2 of this contract, and any

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outstanding balance after said deduction will be deducted by The Company from the fixed annuity payable to The State in accordance with clause 2.3.1 of this contract, until such time as this cost is recovered by The Company.

The Company shall enter into operational agreements with the railroad operator, under terms acceptable to The Company, concerning access to the roundhouse in the Port of Balboa and any pull-off line in the Port of Cristobal, to ensure the continued effective operation of The Ports.

f. To operate the installations and facilities of The Ports.

g. To continue the current practice that any vessel in the Port of Cristobal maintains its pre-booked transit slot in the transit schedule of the Panama Canal.

h. To enter into contracts with third parties for transportation, cargo and container handling, and any other lawful service or activity.

i. To provide services to third parties and collect the charges, amounts, and rates established by The Company.

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j. To use, under its own management, but subject to supervision by The State, the wharfs and other facilities that The Company may build in respect to the activities contemplated in the contract.

k. To use for the construction and operation of The Ports, at no cost to The Company, all the materials that area in The Ports, including dirt, gravel, sand, rock, and other materials. In the event that the materials are located in adjacent areas which are under the control of The State, its agencies, municipalities, or other government entities, their use by The Company will be approved by the pertinent agency, at a cost no greater than that which any other user would be required to pay.

l. The right to use, at no cost to The Company, water originating from natural sources for the execution of the activities of The Company in relation to this contract.

m. The right to use, at any time, in The Ports, electrical energy, gas, or other alternative energy sources, as well as communications systems, at the rates of general application, or at preferential rates applicable in Panama to large industrial customers. Notwithstanding the foregoing, The Company will have the right to establish and operate its own means of electrical

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energy and communications system.

n. To remove dirt, rocks, vegetation in general, and other obstacles hindering the execution of its activities, pursuant to the regulations that govern said matter and after obtaining the necessary permits. Such permits shall be issued by The State in response to the request made by The Company to this effect.

n̄. To dredge, fill, or reinforce the coastal areas assigned to The Company and the entrances to same, and with the approval of The State, to dispose of spoils at sea in the place most convenient and cost effective to The Company, while taking environmental issues into consideration.

o. To request and acquire all licenses, permits, and authorizations as may be required by The State, its agencies, or other entities, for the development and proper operation of The Ports. In this respect, The Company shall comply with the same requirements generally required to obtain such licenses and authorizations. The Company will not be obligated to comply with more requirements or to obtain more licenses, permits, approvals, or authorizations that are not of general application in the Republic of Panama.

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p. To directly or by means of contractors operate, administrate, manage, transport, possess, ship, supply, acquire, sell, repair, excavate, dredge, fill, reinforce, and carry out all other activities necessary for the proper administration and exploitation of The Ports.

q. To obtain those revenue items to be invoiced by The Company, some of which are listed in Annex IV as illustration, but which should not be considered as a limitation in any sense.

r. To fix and collect at its entire liberty, the rates, amounts, and rights it deems convenient for all the operations and activities of The Company in The Ports, such as, but not limited to the handling, transportation, or transshipment of all kinds of cargo, and rendering of any service provided, supplied, or executed by The Company, its affiliates, subsidiaries, or subcontractors. The rates shall be established on a non-discriminatory, commercial basis. The Company may establish rate reductions based on a discount per volume or according to the commercial practices applicable to this kind of activity.

s. To store unloaded containers in The Ports or adjacent areas, when so required by space limitations, in compliance with current legal provisions and those established in the future.

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t. To lease buildings, installations, and land to third parties in The Ports.

u. To subcontract all its rights and activities granted under this concession contract, without need for approval by The State.

v. To establish and change manpower levels and working practices, pursuant to the Labor Code, to ensure the efficient, competitive operation of The Company.

w. To renegotiate the commercial and legal terms of such concessions previously awarded by the National Port Authority in the Existing Port retained by The Company and detailed in Annex III to this contract.

#### 2.11 Obligations of The Company

The Company shall have the following obligations in accordance with this contract:

a. To initiate and carry out the modernization of the Existing Port from the first year of management, counted from the effective date of the contract and subject to the submission of a

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program, which shall be approved by the National Port Authority, such approval not to be unreasonably withheld.

The approval and/or comments will be given by The State within thirty (30) calendar days, counted from the date of submission of any plan by The Company.

b. To allow use of The Ports by third parties, according to the rules and regulations of The Company. The Company may collect the fees it deems convenient, on a commercial basis. However, in the cases of an activity previously granted in concession by the National Port Authority for assistance or service to vessels, The Company will determine whether the collection of fees for the additional services that it renders is applicable.

c. To request and obtain the necessary permits from the national or municipal authorities relative to the construction of civil works in The Ports, and to pay the corresponding fees, which will be the standard fees for such permits.

d. To permit the use of the installations in the Existing Ports to United States Army vessels, as established in the Panama Canal Treaty, until expiration of such treaty in the year 2000,

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and to those under international assistance and cooperation treaties and agreements (as detailed in Annex VII), provided that such use does not interfere with the daily operation of the business of The Company in the Existing Ports. It is understood that these vessels will be exempt from wharfage and lay day charges in the Existing Port, but The Company will have the right to charge for the services it provides, at commercial rates similar to those applied to the customers of The Company.

e. To undertake corrective maintenance and repair work, or at the option of The Company, to replace any facility or installation, if it considers this more convenient for technical and/or financial reasons. Such maintenance includes the dredging to be conducted by The Company in the marine area of the Existing Port and in the seaward access to the Panama Canal, as detailed in Annex I, which allows The Company to collect berthing and anchorage dues.

f. To maintain The Ports in good operational and usable conditions.

g. The Company shall guarantee the performance of its obligations under this contract by posting a performance bond made payable to The State in the amount of five hundred thousand



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balboas (B/. 500,000.00), to be issued by a reputable financial institution selected by The Company with the prior approval of The State.

#### 2.12 Obligations of The State

The State shall have the following obligations:

a. To guarantee to The Company the full, peaceful possession and use of The Ports, including, without being limited to, priority use of all wharfs in the Existing Port (including those granted in separate concessions to third parties, such as Braswell International, S.A. and Atlantic Pacific, S.A.), and the right to use the area of Albrook assigned to The Company within the Existing Port. It is understood that any development in other areas of Albrook shall not affect the efficient operation of The Ports. If such development were to affect the efficient operation of The Ports, then The Company will have the right to quantify the costs of such disruptions, subject to consultation with The State. The State shall reimburse The Company the amounts corresponding to such costs. In this respect, The Company will submit to the National Port Authority a written request for payment. If The State does not pay the corresponding amounts to The Company within ninety (90) calendar days counted

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from the receipt by the National Port Authority of the referenced request for payment, then The Company will have the right to deduct the amount of said costs from the variable annuity payable to The State in accordance with clause 2.3.2 of this contract, and any outstanding balance remaining after such deduction will be deducted by The Company from the fixed annuity payable to The State in accordance with clause 2.3.1 of this contract.

b. To grant expeditiously to The Company any permit, license, or authorization, through the appropriate entities of the Republic of Panama, which may be required to exercise the rights granted to The Company under this contract for the operation of The Ports, provided that The Company complies with the documentation normally required for such matters, to include the granting of visas and work permits for the personnel of The Company who will arrive in Panama.

c. To supply, whenever necessary in The Ports, such services as maritime traffic control, health and quarantine, customs, immigration, and other public services. The Company shall assume the salary costs of the personnel required to perform the referenced public services, who will be hired after prior consultation and approval by The Company regarding the number of employees and their corresponding salary rates. It is

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understood that such officials will be officials of The State and that under no circumstance will they be considered employees of The Company.

d. To refrain from granting any new concession in the Existing Port, as of the publication date of this contract in the Official Gazette, without prior consultation and approval by The Company. It is understood that the National Port Authority may renew or grant new concessions on those retained by The State in the Existing Ports. However, it is agreed that the proposed concessionaire in each specific case, The Company, and the National Port Authority shall enter into an operational agreement prior to the execution of those concessions, which will regulate the operational relationship among the parties.

e. To allow the employees of The Company unrestricted access to The Ports from the date of publication of this contract in the Official Gazette.

f. To physically vacate and turn over to The Company, before the effective date of this contract, all existing government offices from the Existing Port. It is understood that any public services required to be supplied according to clause 2.12 (c) may be relocated within the Existing Port at the

discretion of The Company.

g. To physically vacate and turn over to The Company the areas, facilities, and installations presently occupied by the Panama Canal Commission and the U.S. Government within The Ports, which once vacated will become assets of The Ports at no cost to The Company or the National Port Authority. It is understood that this obligation must be fulfilled even if these areas, facilities, and installations are occupied by the Panama Canal Commission or by any other person or government entity, being as it is the obligation of The State to turn over these areas, facilities, and installations to The Company.

h. To coordinate through the Ports and Railroad Committee, prior to the expiration of the Panama Canal Treaties, the termination of the rights of the Panama Canal Commission and the U.S. Government with respect to the use of the areas and installations of The Ports or their vicinity which have been given in concession to The Company under this contract, specifically including the right of The Company to use buildings numbered 2A, 3, 4, 5, 8, 8A, 10, 28, and 44B, as detailed in Annex IX, located in the Existing Port, which are required by The Company for the development of its cargo handling operation. Any relocation cost incurred by The Company shall be previously

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agreed with the Ports and Railroad Committee. The State shall reimburse The Company the amount corresponding to the referenced cost. To this end, The Company will submit to the National Port Authority a written requirement for payment. If The State does not pay The Company the corresponding amount within ninety (90) calendar days counted from the receipt by the National Port Authority of the referenced requirement for payment, then The Company will have the right to deduct the amount of such cost from the variable annuity payable to The State under clause 2.3.2 of this contract, and any outstanding balance remaining after said deduction shall be deducted by The Company from the fixed annuity payable to The State under clause 2.3.1 of this contract.

i. To guarantee, at the election of the customers of The Company and on a non-discriminatory basis, the services of any pilot authorized by the National Port Authority or those appointed by the Panama Canal Commission or its successor after the expiration of the Panama Canal Treaty, and to provide such pilotage services in accordance with the established standards. Such standards will require a pilot to board the vessel within 30 minutes of the notification of the request for service, but from time to time these standards may be amended in keeping with commercial practices. If service levels are not obtained by the customers of The Company, then they will have the right to

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directly hire the pilots they deem necessary for the performance of such service.

j. To coordinate with the Panama Canal Commission or any other entity, until the expiration of the Panama Canal Treaties, the pilotage services in The Ports, and make sure that such services are performed in accordance with established standards. Such standards will require a pilot to board the vessel within 30 minutes of the notification of the request for service, but from time to time these standards may be amended in keeping with commercial practices. If such service levels are not obtained, The Company may ask The State, and The State must provide to the Canal Commission or its successor entity sufficient additional pilotage resources to allow it to provide efficient service at a reasonable cost.

k. To allow The Company and its foreign employees, at all times, the free conversion of their earnings into any foreign currency, as well as to transfer abroad such earnings without any restriction, tax, or other charges. Likewise, The Company may maintain, in Panama or abroad, bank accounts in foreign currency for the purpose of meeting its obligations.

l. The State will be solely responsible for the payment to

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third parties of those compensations or indemnizations and/or charges resulting from the termination of any concession received by The Company from the National Port Authority within The Ports, and/or for the relocation or the vacation of buildings and lands as a result of such termination. It is agreed between the parties to this contract that The Company will advance the payment of any compensation or indemnization and/or charges to said third parties, in consultation with The State. The State shall reimburse The Company the amount corresponding to the referenced payment. To this end, The Company will submit a written requirement for payment to the National Port Authority. If The State does not pay The Company the corresponding amount within ninety (90) calendar days, counted from the receipt of the referenced requirement for payment by the National Port Authority, then The Company will have the right to deduct the amount of such payment from the variable annuity payable to The State under clause 2.3.2 of this contract, and any outstanding balance remaining after such deduction will be deducted by The Company from the fixed annuity payable to The State under clause 2.3.1 of this contract.

m. In the event that no agreement is reached between The State and The Employees concerning the payment of the indemnizations that must be made prior to the effective date of

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this contract, as contemplated in clause 2.6.1, The State will guarantee The Company the peaceful possession and use of The Ports, from the effective date of this contract, to allow it the efficient, competitive operation of The Ports. In this event, and notwithstanding the provision established in clause 2.6.2, the loan referred to in that clause 2.6.2 will be maintained in the escrow account for a maximum period of one year, counted from the effective date of this contract. If after that period The State has not reached agreement with The Employees and therefore not used such loan to pay them the indemnization, then The Company will have the right to withdraw and receive the total amount of the loan deposited in escrow and all interest accrued thereon.

n. To issue in favor of The Company the pertinent documents to exploit the concessions, rights, and privileges granted under this contract, while at all times keeping with the applicable legal and administrative regulations, so that The Company may develop its activities and exercise its rights in due form, without interference or hindrance that may affect the full exercise of its rights.

ñ. To undertake all the necessary administrative and legal actions to transfer to The Company, by the effective date of this



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contract, all those concessions to be retained by same in accordance with clause 2.2 of this contract.

o. To reply, within thirty (30) calendar days, to any consultation or request for approval by The Company. If no reply is received within that period, this will be understood as approval by The State in the terms requested.

#### 2.13 Environmental Issues

The Company agrees to ensure proper protection of the environment for the activities of The Company in The Ports, complying with the legal provisions and regulations in force in the Republic of Panama or with those that may be passed in the future, and in keeping with the international laws on the environment. This obligation includes the contractors working for The Company, but not third parties.

Except for the cases where the damage and pollution has already taken place, which will include but not be limited to those determined by the environmental study on pollution initiated by The Company, as provided in Annex VI to this contract, and to the environmental study provided by The State, as detailed in Annex VIII, The Company shall be responsible and

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post a bond in favor of The State in the amount of five hundred thousand balboas (B/.500,000.00) to cover the cost of the environmental damage and pollution caused by The Company. The referenced amount does not imply a limit of responsibility for damages caused by The Company. This bond must be posted prior to the effective date of this contract.

#### 2.14 Termination of Contract

All installations and facilities existing within the Existing Port are for the exclusive use of The Company, and all new, upgraded, or renovated infrastructure in the Existing Port, as well as the future wharfs, buildings, parks, and other infrastructure built in The Ports in accordance with this contract (hereinafter called Civil Installations) will be the property of and for the exclusive use by The Company, as stipulated in this contract.

The termination of this contract, for whatever reason, will not affect any rights or responsibilities of the contracting parties accrued or incurred prior to the date of termination of this contract.

##### 2.14.1 Termination By Expiration

Upon expiration of the term of this contract, including any extension thereof pursuant to clause 2.9 of this contract, all Civil Installations shall become the property of The State. For its part, The Company will have the right to remove from The Ports the equipment, machinery, and other movable property it owns, controls, or acquires from The State, such removals being subject to the option of The State to purchase the same at their fair market value, as determined by appraisal by an independent international accounting firm.

Nine months prior to the expiration date of this contract, The Company will provide to The State a list of all the commercial and labor obligations existing until that date. The State will notify The Company within the following three months which obligations it will assume and continue upon the termination of the concession. Those obligations which The State will not assume will be terminated by The Company on the last day or the concession or of any extension to same.

#### 2.14.2 Termination of Contract by The Company

a. This contract may be terminated by The Company due to non-performance by The State with any of its substantial obligations under this contract.

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b. This contract may be terminated by The Company, without incurring in any liability or penalty, by notification to The State with sixty (60) calendar days advance notice, upon the occurrence in Panama of any social and/or economic change which has occurred as a result of direct or indirect acts or omissions by the government of Panama that The Company can substantiate have materially affected the continuous, successful development, construction, operation, administration, or management of The Ports, or when whichever of the forces majeure or acts of God stated hereinafter persist for no less than thirty (30) calendar days.

Upon termination of this contract by The Company, pursuant to paragraphs a) or b) of clause 2.14.2, The State shall assume the control, operation, and administration of The Ports, and will have the following obligations:

(i) To pay The Company the value of the Civil Installations according to their fair market value, as determined by appraisal by an independent international accounting firm. This shall not apply in the event of termination due to force majeure or act of God beyond the control of The State.

(ii) To pay The Company, the fair market value, as

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determined by appraisal by an independent international accounting firm, of the machinery, equipment, and other movable assets located in The Ports, less any outstanding debts on loans obtained for their financing; or to allow The Company, at its entire discretion, to remove such machinery, equipment, and other movable assets. It is understood, for the purposes of this termination, that The State will assume any obligations derived from this concession, except those arising from any external financing obtained by The Company to finance its working capital requirements.

#### 2.14.3 Termination of the Contract by The State

The State may terminate this contract if The Company fails to comply with the substantial obligations acquired hereunder, or if any other of the administrative causes for termination established in Article 104 of Law 56 of 1995 presently in force are present, to wit:

- a. Bankruptcy, or declaration of insolvency by its creditors, or if The Company has suspended or ceased payments of its debts without declaring bankruptcy;
- b. The dissolution of The Company, when it is a single

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corporation, or of several of the companies that comprise the consortium or incidental association, unless the remaining members of the consortium or association can fulfill the contract;

In these events, The State, through the Executive Branch, may administratively declare that The Company has lost all the privileges and concessions that were granted to it under this contract, unless The Company is able to prove that the noncompliance was due to force majeure, act of God, or due to a default by The State.

In the event of a justified cause, The State shall pronounce it so and shall grant to The Company new, reasonable terms. In the event of an unjustified violation or a substantial noncompliance by The Company, The State, through the Executive Branch, shall notify it in writing. If this occurs, The Company will have sixty (60) calendar days, counted from the receipt of notification, to remedy such noncompliance or violation, without renouncing the right to defend itself against the charges formulated, through arbitration proceedings.

Upon termination of this contract by The State, pursuant to clause 1.14.3, The State shall assume the control, operation, and

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administration of The Ports, subject to the following:

(1) The Company will have the right to remove from The Ports the machinery, equipment, and other movable assets located in The Ports, less any outstanding debt on loans obtained for their financing, subject to the option of The State to purchase the same at their fair market value, determined by appraisal by an independent international accounting firm.

It is understood, for the purposes of this termination, that The State will assume any obligations derived from this concession, except those obligations arising from any external financing obtained by The Company to finance its working capital requirements.

#### 2.14.4 Termination due to Force Majeure or Act of God

For the purposes of this contract, any fact or events over which The Company has been unable to exercise reasonable control, and which, due to its nature delays, restricts, or impedes the timely compliance by The Company of the obligations it has acquired under this contract shall be considered as force majeure or act of God.

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For the purposes of this contract, force majeure will include, among others, the following events: epidemics, earthquakes, landslides or displacement of other materials, storms, floods, other adverse climatological conditions, or whichever other event or act, be it or not of the aforementioned type, over which The Company is unable to exercise reasonable control and which, due to its nature, delays, restricts, or impedes the timely compliance of its obligations by The Company.

For the purposes of this contract, force majeure will also include, among others, the following events: wars, revolutions, uprisings, civil disturbances, blockades, embargoes, strikes, restrictions or limitations on materials necessary for the construction and operation of The Ports, shutdowns, riots, explosions, orders or instructions from any lawful or de facto government, and whichever other cause, be it or not of the aforementioned type, over which The Company is unable to exercise reasonable control and which, due to its nature, delays, restricts, or impedes the timely compliance of its obligations by The Company.

It is understood that neither of the parties may invoke in its benefit, as force majeure, its own acts or omissions, or those of its agencies or branches.



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Noncompliance by any of the parties of any obligation assumed hereunder shall not be considered as default, if said situation is caused by an act of God or force majeure.

If the execution of any activity that must be carried out under this contract is delayed or impeded by an act of God or force majeure, then the term stipulated for its execution, as well as the duration of this contract shall be extended for such period of time as the delay lasts, and The Company will have the right to suspend all payments to The State until the end of such delay, without renouncing its right to terminate the contract under clause 2.14.2b.

The party which is unable to meet its obligations due to an act of God or force majeure, shall notify it in writing to the other party, as soon as possible, specifying the causes in hand, and both parties agree to do everything that is reasonably possible to cease such cause; without this meaning that any of the parties shall be bound to solve a dispute with third parties, except under conditions which are favorable to the affected party, or in accordance with a final decision of an arbitrating, judicial, or administrative authority with jurisdiction to resolve such a dispute.

2.14.5 Recovery of the loan in the event of early termination

The State agrees to pay to The Company the outstanding balance on the loan referred to in clause 2.6.2, within thirty (30) calendar days following the termination of this contract, in the event that this contract is terminated for whichever reason before the seventh (7th) year of the repayment term, as provided in said clause.

3. Additional Clauses

3.1 Tax exemptions

The State grants to The Company, its subsidiaries, affiliates, and assignees, during the duration of this contract and its extension, the following exemptions, rights, and privileges:

a. Exemption from all taxes, contributions, duties or import taxes on all the equipment, including but not limited to: machinery, materials, raw materials, fuel and lubricants, cranes, vehicles, appliances, supplies, parts, boats, and containers destined to the development, construction, operation,

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handling, and maintenance of The Ports.

It is understood by The Company that the exempted goods must remain within The Ports, except for those used for transportation activities, and that they may not be sold or transferred within the Republic of Panama without the prior written authorization of The State, unless the respective tax is paid, calculated on the basis of the net book value of the good at the time of sale or transfer. However, except for fuels and lubricants, such goods may be exported without any type of taxation and without the need for advance authorization.

b. Income tax exemption on all income perceived by The Company, its subsidiaries, affiliates, and assignees from all their activities, such as storage and handling; handling of loose cargo resulting from the international transshipment or transit of such cargoes and containers, as well as from the industrial and manufacturing activities established in The Ports with the purpose of exporting the products. (These last two activities shall not impede the prime object of this contract, which is to provide efficient port service.) These examples are used as illustration and are not limiting in any way.

c. Exemption from the transfer tax of *bona mobilia* (ITBM

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for its initials in Spanish) on equipment, machinery, materials, raw materials, cranes, vehicles, appliances, parts, boats, and containers assigned to the construction, operation, and maintenance of The Ports, and on those goods that The Company may need for the development of its activities in The Ports under this contract. This exemption shall include leasing by The Company of any equipment or other movable equipment.

- d. Exemption from all tax on dividends arising from the activities contemplated in this contract.
- e. Exemption, within The Ports, from charges on containers, stowage, breaking out the hold, handling, manipulation, and lay day.
- f. Exemption from property tax.
- g. Exemption from commercial and industrial licensing tax.
- h. Exemption from taxes on remittances or transfers abroad due to payment of commissions, royalties, or any other charge related to the activities covered by this contract.
- i. Exemption from fiscal stamps to be payable on account of

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this contract for any amount in excess of one hundred thousand balboas (B/. 100,000.00).

j. Exemption from taxes, fees, and rights for the denominated "Special Surveillance Service."

k. Exemption from all tax, rate, duty, encumbrance, retention, or other charges of similar nature, to foreign individuals or organizations granting financing for the development, administration and construction of The Ports, the supply and installation of equipment, leasing of the necessary equipment for the development of the activities of The Ports regarding interests, commissions, royalties, and other financial charges that should be paid by The Company, its subsidiaries, affiliates, assignees, and subcontractors. Such financing shall not be subject to the provisions of Article 2 of Law 4 of 1935.

It is understood that neither the income nor profits generated outside of the Republic of Panama by The Company, its affiliates, subsidiaries, assignees, subcontractors, or shareholders, nor its assets located outside the Republic of Panama, are subject to any tax, charge, rate, right or contribution in the Republic of Panama. In addition, The State

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guarantees to The Company, its subsidiaries, affiliates, and assignees that it will not impose new taxes that apply only to the activity related to The Ports.

1. The Company will be subject to the payment of municipal taxes, rights, and fees, up to a maximum yearly amount of fifty thousand balboas (B/. 50,000.00). It is understood that any amount over that sum, payable by The Company, will be paid by The State.

### 3.2. Representation

For the purposes of this Contract, The State shall be represented by the Ministry of Commerce and Industry, through the National Port Authority, as executing unit, which shall also be responsible for granting the permits and authorizations that may be required under this contract, as well as for exercising oversight and compliance by The Company.

All notices which must be served in relation to this Contract, unless the parties agree otherwise, shall be made in writing, served by personal delivery, or sent by telex or fax, to the address of the parties, to wit:

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**EXECUTING UNIT:****NATIONAL PORT AUTHORITY**

Address: Via España, Dorchester Building  
3rd Floor, Panama City, Republic of Panama  
Telex: 2765 PG  
Telefax: (507) 269-6992  
Attention: General Director  
Office of the Legal Counsel

**THE COMPANY:****PANAMA PORTS COMPANY, S.A.**

Address: 47th Street, Bella Vista  
House No. 27, Panama City, Republic of Panama

cc: HUTCHISON INTERNATIONAL PORT HOLDINGS  
LIMITED

Address: Container Port Road South  
Kwai Chung, New Territories, Hong Kong  
Telephone: (852) 8125 7888  
Telefax: (852) 8121 0555  
Attention: Managing Director  
Company Secretary

cc: Consolidated Ports (UK)  
Address: Tomline House  
Port of Felixstowe

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Suffolk IP118SY  
United Kingdom  
Attention: Company Secretary

cc: Hutchison International Port  
Holdings Ltd.  
Address: Hutchison House  
22/F, Harcourt Road  
Hong Kong  
Telephone: (852) 2523 0161  
Telefax: (852) 2810 0705  
Attention: Managing Director  
Company Secretary

### 3.3. Applicable Law

The present contract shall govern the legal relationship between the parties. The contract will additionally be governed by the laws currently in force or by those future laws regulating this matter in the Republic of Panama, except in the extent to which such laws or legal provisions are contrary to, inconsistent, or incompatible with the present contract, or are not of general application. It is understood that those laws or standards applicable to a specific type of industry or activity



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shall not be considered of general application.

#### 3.4 Arbitration

The parties declare their firm intent to examine with the most objective and amicable spirit all divergences which may arise between them in relation to the present contract, with views to solving them.

In the event of any conflict between The State and The Company arising in relation to the present contract and which was not possible to solve in the aforementioned manner within twenty (20) calendar days from the first written communication sent by fax by either party regarding the conflict, then the conflict must be submitted to arbitration according with the Rules of Conciliation and Arbitration of the International Chamber of Commerce (ICC).

There shall be three (3) arbitrators, who shall be appointed in accordance with the procedural rules. If one of the parties abstains from appointing an arbitrator, the will shall be appointed by the ICC. If the two appointed arbitrators abstain from appointing the third arbitrator within a term of thirty (30) calendar days counted from the date of appointment of both

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arbitrators, the ICC will, at the request of either of the parties, appoint the third arbitrator.

The death, resignation, or removal of an arbitrator shall not be cause for the termination of the arbitration process, nor shall its effects cease, it being understood that the procedural rules shall be followed for the election of the missing arbitrator.

The seat of the Arbitrating Tribunal will be in the city of New York, and the arbitration proceedings shall be conducted in English.

If any of the parties, having being duly notified, abstains from appearing or from obtaining a postponement, the arbitration may continue in the absence of said party, and the decision issued in such proceeding shall have full validity.

The decisions of the Arbitrating Tribunal shall be made by simple majority.

Tribunal decisions shall be final and definitive and of mandatory compliance for the parties.

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The parties herewith expressly and irrevocably waive immunity with respect to the arbitration.

It is understood that the parties shall accept that the execution of the orders or judgments of the arbitration be enforced by the courts of the Republic of Panama; for this purpose, the decisions of said arbitrators shall be considered as if they had been pronounced by Panamanian arbitrating tribunals, pursuant to the legal provisions currently in force.

### 3.5 Good faith

The State shall lend its cooperation and assistance to The Company to achieve the due compliance with its obligations hereunder, including but not limited to the granting of the necessary licenses.

### 3.6 Modification

It is understood that for the duration of this contract and its extension, but no earlier than three (3) years counted from the effective date of this contract, The Company and The State may enter into negotiations on the terms of this contract with the purpose of ensuring the effective operation of The Ports.

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This contract may be modified by mutual agreement between the parties, subject to compliance with the legal requirements.

### 3.7 Language

This contract is signed in two (2) original versions in Spanish, of identical wording and validity.

### 3.8 Translation

Annex X contains an English translation of this contract.

### 4. Effective Date

This contract shall enter into effect on the first day of the month which is at least one month, but no later than the two months immediately following the publication of this contract in the Official Gazette, after its approval by the Legislative Assembly, taking into consideration, however, that if the date of such publication does not fall on the first day of a month, the effective date of this contract shall be the first day of the month immediately following.

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5. Headings

The headings in this contract are solely for descriptive purposes.

IN WITNESS WHEREOF, the parties sign this contract on the 12th day of the month of December of 1996.

FOR THE STATE

FOR THE COMPANY

Raul Arango Gasteazoro  
Minister of Commerce  
and Industry

Paul R.C. Rickmers  
General Manager  
Panama Ports Company, S.A.

Enrique A. Jimenez Jr.  
Legal Representative

COUNTERSIGNED

No. 23,208

Official Gazette, Tuesday, January 21, 1997

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Comptroller General  
of the Republic

No. 23,208

Official Gazette, Tuesday, January 21, 1997

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ANNEX I

The Existing Port, Future Extension  
and Dredging Jurisdiction

Maps and descriptions detailing the ports of Balboa and Cristobal (The Existing Port), the Future Extension, detailing the future expansion for the operation of the ports of Cristobal and Balboa, and the Dredging Jurisdiction.

ANNEX II

List of Equipment to be acquired by The Company in the Existing Port.

ANNEX III

List of Concessions retained by the National Port Authority and others retained by The Company within the Existing Port.

ANNEX IV

Revenue items to be invoiced by The Company within The Ports.

A. Service to Vessels

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1. Anchorage dues
  2. Berthing dues
  3. Mooring/Unmooring
  4. Supply of services such as:
    - Fresh water provision
    - Electrical connections
    - Oily waste disposal
    - Other waste disposal
    - Storage and provision of spares (by way of a port admission charge to third party vehicles providing such service).
    - Provision of health and quarantine, customs, immigration, and other services.
- B. Cargo Services**
1. Cargo handling/stevedoring-includes containers, general bulk, and vehicles.
  2. Passenger levy.
  3. Cargo storage (following an appropriate free period)
  4. Change of executive information (i.e. amendment of export or transshipment/delivery details requiring cargo movement)
  5. Special service requests (i.e. request for weighing, inspection, fumigation, etc.)
  6. Special handling and lashing requirements (such as chocking,



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cradling, slinging, etc.)

7. Penalties for delays due to late documentation, late arrival of vessel, or inability of vessel to operate.

C. Other Revenues

1. Concession fees
2. Permits
3. Sale of abandoned goods

ANNEX V

Concession contracts and resolutions supplied by the National Port Authority.

ANNEX VI

Environmental Study on Pollution within the Existing Port.

ANNEX VII

Assistance and Technical Cooperation Agreements.

ANNEX VIII

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Environmental History.

## ANNEX IX

Buildings required by The Company to carry out its operations within the Existing Port.

## ANNEX X

## TRANSLATION (sic)

Article 2. Pursuant to the provisions of Article 310 of the Constitution, whereby the Panama Canal Authority is established and granted attributes and responsibilities, and also by virtue of the close ties that exist between the activities of the Authority and the operation of the ports adjacent to the Panama Canal, the contract contained in this law is approved under the condition that none of its clauses may be interpreted in a manner that is contrary to the attributes, rights, and responsibilities that are conferred upon the Canal Authority in the referenced constitutional provision or in the law whereby the Authority is organized, especially in relation to the use of areas and installations, marine traffic control and pilotage of vessels transiting the Canal and its adjacent ports, including its anchorages and moorings. In any case, when a conflict exists

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between the stipulations of this contract and the law whereby the Canal Authority is organized or with the regulations that develop such law, the latter shall prevail over the former.

Article 3. As of the publication of the present law, all those companies dedicated to the construction, development, management, and operation of port terminals that handle containers and loose cargo shall submit to the approval of The State the rates for port and maritime services established by them for items which are deemed sensitive to the national economy because of directly or indirectly being part of the basic family staples.

The following items are considered sensitive:

- a. Fresh, refrigerated, or frozen meat (beef, pork, and goat meat, and poultry)
- b. All dairy products or milk by-products (fresh, powdered, or evaporated milk, cheese, ice cream, yogurt, or curds).
- c. Products of vegetable origin (kernel corn for human or animal consumption, rice in grain or sheath, flour, and wheat).

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ch. Any material used for propagation, or planting.

d. Fresh potatoes and onions.

The provisions of the present article will not apply to cargo in transit.

Article 4. All companies dedicated to the construction, development, management, and operation of port terminals that handle containers and loose cargo must comply with the stipulations of Law 29 of February 1, 1996, whereby the rules of competition are established and other measures are adopted.

Article 5. Concession contracts on areas located in the ports of Balboa and Cristobal are hereby declared terminated in the public interest or for the social good, because they interfere with the development and modernization plans contemplated by The State for the ports of Balboa and Cristobal.

Article 6. The State expressly recognizes that the operation of ports in Panama is a public service. Financial conflicts or conflicts of interest arising as a consequence of the labor relationship between The Companies operating the ports and their employees will be governed by the provisions of the Labor Code.

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However, with respect to the right to strike of these employees, and in consideration of the strategic and public service nature of port work, such companies may at any time ask the Ministry of Labor and Social Welfare that the conflict be resolved through arbitration.

Article 7. This law rescinds Decree 20 of 1980, Law 39 of 1979, Law 40 of 1979, and any other stipulation that contravenes it, and it will become effective upon its publication.

Let it be notified and enforced.

Approved in third and final debate in the Justo Arosemena Palace, on December 28, 1996.

CESAR A. PARDO R.  
President

VICTOR M. DE GRACIA M.  
Secretary General

NATIONAL EXECUTIVE BRANCH - PRESIDENCY OF THE REPUBLIC  
PANAMA, REPUBLIC OF PANAMA. JANUARY 16, 1997.

ERNESTO PEREZ BALLADARES  
President of the Republic

RAUL ARANGO GASTEAZORO  
Minister of Government

Mr. ROHRBACHER. Please also include for the record the enclosed document that describes the relationship between Hutchison Whampoa and its owner Li Ka-Shing and China Resources Enterprises to the Communist Chinese regime itself.

[The information referred to follows:]



**U.S. & FOREIGN COMMERCIAL SERVICE**  
**American Consulate General Hong Kong** ✓  
 26 Garden Road  
 Central Hong Kong

Tel (852) 2521-1467 Fax (852) 2845-9800

Date : January 16, 1997  
 To : Richard Benson  
 Commercial Attache ✓  
 U.S. Embassy Panama  
 From : David Katz ✓  
 SCO Hong Kong  
 Subject : Hutchison Group  
 Number of Page : 1

Thank you for your Jan. 13 fax and the attached newspaper clipping.

As you know, journalists are sometimes misinformed on their reported stories. In this case, the article was incorrect in that China Resources Enterprises did not fully buy out HIT. China Resources Enterprises did, however, buy a 10% (TEN percent, NOT 100%) HIT stake (worth HK\$3.5 billion) from its parent company (China Resources Holdings) in December 1996. Hutchison Whampoa Ltd. still owns 77.5% of HIT.

The Chairman of Hutchison Whampoa Ltd., Mr. Li Ka-shing, still has control over the group, having more than 44% ownership (through shares held by Cheung Kong Holdings and its subsidiaries). The rest of the stock is being held by the general public and a number of other tycoons in Hong Kong, including the Kadoorie family and Simon Murray and his family. While we are not lawyers, it is neither our understanding nor that of the business circles here that Hutchison Whampoa is "under the control of the Chinese Government". However, like most other tycoons in the territory, Li Ka-shing maintains friendly relationships with the PRC Government.

I hope the foregoing helps. Best regards.

~~SECRET NOFORN~~ *undel social*



**DCSINT**  
**USARSO**  
**INTELLIGENCE UPDATE**



**Period of Report: 22 - 24 April 1998**

Information contained in this summary is initial reporting of items pertinent to the USARSO AO/AOR

**CURRENT DEPLOYMENTS**

**PANAMA**

- CHINA AWAITING U.S. DEPARTURE (U) 221333Z APR 98

~~SECRET NOFORN~~ *undel social*



~~SECRET~~

*unclas sw 0004*

**PANAMA**

**China Awaits U.S. Departure (U)**



-- (U) According to a DIA Intelligence Information Report, Li Ka Shing, the owner of Hutchison Whampoa Ltd. (HW), and Cheung Kong Holdings Ltd. (CK), is planning to take control of Panama Canal operations when the U.S. transfers it to Panama in Dec 99.

-- (U) Li is directly connected to Beijing and is willing to use his business influence to further the aims of the Chinese government. He has been positioning his son, Victor Li, to replace him in certain CK and HW operations such as HW's Hong Kong International Terminals (HIT).

-- (U) Due to a decline in raw materials from within China, freight rates dropping due to excess tonnage in the market, and the current Asian financial crisis, corporate revenues should decline. Consequently, China is looking to expand into new markets. (DIA, 221333Z APR 98)

<sup>8-000A</sup>  
(C) **Analyst Comment:** Li's interest in the canal is not only strategic, but also a means for outside financial opportunities for the Chinese Government. China, the canal's third largest user, consequently has a significant amount of influence. If China were to assume control of the canal operations it would have to abide by the neutrality requirements of the Torrijos-Carter treaties.

~~SECRET~~

*unclas sw 0004*

Mr. ROHRABACHER. It is not a coincidence that Taiwan, which is under the threat of military attack by Beijing, has stopped shipping military supplies through the Panama Canal because of their concern that all ships' cargo manifests will be seen by Hutchison Whampoa and reported to Beijing.

Equally troubling, since the removal of United States counterdrug operations at Howard Air Force Base, there has been a significant increase in the vast quantities of South American cocaine and heroin that transit through and around Panama.

And let me say to my colleague from Hawaii I certainly share her commitment to trying to reshape America's drug effort so it isn't totally aimed at enforcement and interdiction, but that does not take away from the importance of these other efforts. But putting treatment in the mix is a good idea. It's an important element.

But when we take a look at what's going on now as a result of America pulling back from Panama and the weakening of our drug enforcement mechanisms, it's having a harrowing effect on American security and on the security and well-being and stability of that part of the world.

The war in neighboring Colombia against well-armed narco-terrorist forces financed by laundered drug profits through Panama's banks is escalating and threatens to spread throughout the region. Panama does not have an army, a navy or an air force.

The Panamanian Government and its National Police force are, at best, unable to cope with the challenges they face; and the people of Panama understand that. They're unable to cope for a number of reasons. There is incompetency and corruption charges, but also it is a very small force, and it is a very small country. It makes absolutely no sense for the United States Government to pour billions of dollars into a counterdrug war into Colombia and to deploy an increasing number of American soldiers there while ceasing to seriously negotiate with Panama for a reinstatement of American security advisers and, yes, even security forces and counter-narcotics experts there in order to participate in a regional effort.

In all recent public opinion polls—and this is what makes it so incredulous that this is happening—80 percent of the Panamanian people support a continued United States security presence in their vulnerable homeland. They want us there. The empty American bases and total absence of American military presence in Panama—at America's most important strategic point in this hemisphere. This is a glaring example of this administration's callous disregard for our country's national security interests.

In Panama, the people want us there, but yet this administration was unable to negotiate an agreement to permit us to have a military presence there. It's a travesty. In fact, I would say it's more. It's a sham when one says that we were honestly trying to negotiate so America could maintain some sort of a presence there in Panama.

And those of us who, spent time in that part of the world, it's shocking to go and see now that there's just no American troops, no American military. What was an area where it was bustling with Americans, we had presence, we were able to deter evil forces—and I know that people don't like to use the word "evil." It

maybe sounds a little bit too plebeian to use the word evil, but there are evil forces in this world and America's presence was able to deter those forces from dominating this very small country of Panama.

So this hearing is very important for our national security today because we do have evil forces, countries and forces that hate the United States that are involved with drug trafficking, forces that would undermine our national security, and Panama needs America's help, and it needs America's presence. And I thank you for holding this hearing.

[The prepared statement of Hon. Dana Rohrabacher follows:]

Statement of Congressman Dana Rohrabacher  
"U.S. Security Threats and the Panama Canal "  
Subcommittee on Criminal Justice, Drug Policy and Human Resources  
House Committee on Government Reform  
June 9, 2000

Mr. Chairman:

Thank you for conducting this hearing on national security threats developing in the Panama Canal area, which remains the key strategic choke point for the Americas. When I visited Panama last summer, I was stunned by the complete absence of American security forces in what was for nearly a century America's military outpost protect our nation's vulnerable southern flank.

Today, communist China and transnational criminals are filling the strategic vacuum. Major ports on both ends of the Canal are now under the control of a Hong Kong-based Chinese company - Hutchison Whampoa -- which has close ties to Chinese Government and that is partly owned by an entity that is wholly owned by the Chinese communist regime -- China Resources Enterprises -- which is a known front for Chinese military intelligence. I am submitting for the record a copy of the Panamanian government's official "open bid" document. It shows that American companies initially outbid the Chinese, but were denied the port contracts through what our State Department has called a "highly irregular" process.

Please also include for the record the enclosed documents that describe the relationship between Hutchison Whampoa and its owner Li Ka Shing and China Resources Enterprises to the Chinese communist regime. It is not a coincidence that Taiwan, which is under the threat of military attack by Beijing, has stopped shipping military supplies through the Canal because of their concern that all ships' cargo manifests will be seen by Hutchison Whampoa and reported to Beijing.

Equally troubling, since the removal of U.S. counter-drug operations at Howard Air Base there has been a significant increase in the vast quantities of South American cocaine and heroine that transit through and around Panama. The war in neighboring Columbia against well-armed narco-terrorist forces, financed by laundered drug-profits through the Panama's banks, is escalating and threatens to spread throughout the region. Panama does not have an army, navy or air force. The Panamanian government and its national police force have reputations for corruption and inefficiency.

It makes absolutely no sense for the U.S. Government to pour billions of dollars into a counter-drug war in Colombia and to deploy an increasing number of American soldiers, while

ceasing to seriously negotiate with Panama for a reinstatement of security advisors and -- if necessary -- security forces and counter-narcotics experts to protect America's front-line in Panama. In all recent public opinion polls, some 80 percent of Panamanian citizens support a continued U.S. security presence in their vulnerable homeland. In addition, there is no location that can replace the portion of Fort Sherman which was used by U.S. rapid reaction forces for training and staging for dangerous anti-terrorism and counter-drug missions. The premise that "you fight as you train," holds true. It is essential to defeat terrorism and to protect the lives of our brave soldiers and marines.

Mr. Chairman, this Subcommittee has seen a copy of a recently completed U.S. law enforcement report that accurately describes the lack of success by the Panamanian government in fighting both narcotics trafficking and money-laundering. I am appalled that this outstanding agency appeared afraid to share their critical findings with the Congress and the American people. This demonstrates how criminals and enemies of the United States, such as the Colombian FARC and Chinese communists, have become increasingly bold, while American intelligence and national security agencies have been politicized to the detriment of our national security. Panama is a prime example of the urgent need for the American people to be told the truth. I commend you for holding this public hearing.

Mr. MICA. I thank the gentleman for joining our panel this morning and for his comments.

We have already agreed to leave the record open, with consent of the minority, for 2 weeks. Without objection. Also, I think the material that the gentleman from California requested will be made part of the record.

At this time, we have our first panel; and I'd like to recognize our first panel: the Honorable Rand Beers, who is the Assistant Secretary of the Bureau of International Narcotics for the Department of State; Ms. Ana Maria Salazar, she is the with the Department of Defense in charge of Drug Enforcement Policy and Support; and Mr. William Ledwith, and he is the Chief of International Operations from the Drug Enforcement Administration.

I think they've all been before our panel before, and they're familiar with the requirements of this investigations and oversight panel.

If you would please stand and be sworn.

[Witnesses sworn.]

Mr. MICA. The witnesses answered in the affirmative.

I am pleased to welcome back today Mr. Rand Beers, who's the Assistant Secretary of State for the Bureau of International Narcotics. You're recognized sir.

**STATEMENTS OF RAND BEERS, ASSISTANT SECRETARY, BUREAU OF INTERNATIONAL NARCOTICS, DEPARTMENT OF STATE; ANA MARIA SALAZAR, DRUG ENFORCEMENT POLICY AND SUPPORT, DEPARTMENT OF DEFENSE; AND WILLIAM LEDWITH, CHIEF, INTERNATIONAL OPERATIONS, DRUG ENFORCEMENT ADMINISTRATION, DEPARTMENT OF JUSTICE**

Mr. BEERS. Thank you, Mr. Chairman and members of the Subcommittee on Criminal Justice—

Mr. MICA. I'm not sure if we can hear that. You might have to pull that as close as you can.

Mr. BEERS. Is this better, sir?

Mr. MICA. Yes, go ahead.

Mr. BEERS. Thank you for this opportunity to speak today about Panama and in particular the narcotics trafficking situation. Panama's shared border with Colombia leaves it vulnerable to narcotics trafficking and to incursions into the Darien Province by guerrillas and narco-traffickers. It is arguably one of the most strategically located countries in the Western Hemisphere for drug trafficking and other organized criminal activities. Panama's location between South and North America, its long coastlines, border with Colombia, the Canal and other factors make it a key staging areas for drug shipments and insurgent unrest originating in Colombia. It is crucial, therefore, that we remain committed to a partnership that promotes security for both the United States and Panama.

Panama was certified as fully cooperating with the United States on counternarcotics in 1999. While this country is not a significant producer of drugs or precursor chemicals, due to its strategic location, advanced transportation infrastructure and financial development it serves as a crossroads for transnational crime, including drug trafficking and money laundering. Panama's long land border and shared sea-lanes with Colombia and its extensive Caribbean

and Pacific coastlines make land and sea interdictions a major challenge. The Panama Canal, container seaports, the uncontrolled Colon Free Zone and the beginning of the Pan American Highway, an international hub airport and numerous uncontrolled airfields create unlimited transportation opportunities for drug traffickers.

Accordingly, Panama has become a major transshipment point for illicit drugs smuggled from Colombia into Panama by "go-fast" boats, by containers transported by maritime cargo vessels that transit the Canal or off-load in Panama's ports, by private and commercial overland vehicles and aboard private and commercial aircraft.

Colombian cocaine is, in turn, often stockpiled in Panama and re-packaged for further shipment to the United States and Europe. Panama is also extremely vulnerable to money laundering due to its international banking sector, the Colon Free Zone, and the United States-dollar-based economy.

Panama's law enforcement agencies maintain good relations with their United States counterparts and have demonstrated their willingness to cooperate on an interagency basis.

In 1999, the United States and Panama carried out four coordinated counterdrug operations. The Technical Judicial Police and the Panamanian National Police also executed three major joint interdiction operations along the Costa Rican border against alien smugglers and drug traffickers. In fact, we had one just in the past week.

At the request of the Moscoso Administration, the United States and Panama began law enforcement bilateral discussions on November 23rd, 1999. This past Tuesday, June 6th, the Government of Panama hosted the second round of law enforcement bilaterals. The issues discussed included law enforcement, specifically drug interdiction cooperation, alien smuggling, money laundering and judicial reform. In addition to these issues, this particular round of bilateral discussions was concluded with the signing of a Stolen Vehicle and Aircraft Treaty.

According to United States law enforcement and insurance agencies, Panama is an important destination for vehicles stolen from the United States. Some of these vehicles are transported to Panama for the local market, while others are routed there for transshipment to Europe and elsewhere. Stolen vehicles are often used by Colombia drug traffickers to transport drugs. This treaty for the repatriation of stolen vehicles and aircraft illustrates Panama's commitment to building successful law enforcement and judicial institutions and enhancing bilateral cooperation beyond counter-narcotics.

Panama continues to be a major drug transit country because of its proximity to the world's largest cocaine producer. The situation in Colombia, therefore, is critical for the surrounding region. Colombia is increasingly threatened by well-armed and ruthless narcotics traffickers that are supported by guerillas and paramilitaries. Not only is the Colombian Government unable to exert effective control over thousands of square miles of its own territory, but the border areas of neighboring countries are also put at risk by the instability and violence. The corrosive powers of nar-

cotics and narcotics money are ever-present threats to the institutions and economies of the entire region.

The situation in Colombia also poses a considerable number of direct threats to United States national security interests, including thousands of Americans killed by drugs and drug-related violence each year, losses to our economy from drug-related accidents, inefficiency in the workplace and the social and human costs of abuse and addiction.

After strained relations with the tainted Samper administration, President Pastrana's tenure and the proposed funding for Plan Colombia offer the United States and Panama a golden opportunity to work with Colombia to confront such threats. Panama faces complex and daunting problems, not only those emanating from the Colombian crises but also others that are outgrowths of institutional weaknesses in Panama.

Our challenge as a neighbor and a partner is to identify ways in which we can assist Panama in resolving its narcotics-related and other problems. At this moment, Panama is a partner who shares our counternarcotics concerns and possesses the will to proceed with the needed reforms, bilateral agreements and operations. I look forward to working closely with the Congress as we continue to address these critical issues.

Thank you very much.

Mr. MICA. Thank you. We'll withhold questions until we've heard from all three members of the panel.

[The prepared statement of Mr. Beers follows:]



**Testimony of Rand Beers  
Assistant Secretary of State  
for International Narcotics and Law Enforcement Affairs  
before the  
Criminal Justice, Drug Policy and Human Resources Subcommittee  
of the  
House Committee on Government Reform**

**June 9, 2000**

**I. Introduction**

Mr. Chairman and Members of the Subcommittee on Criminal Justice, Drug Policy and Human Resources:

I want to thank you for this opportunity to speak to you today about Panama, and in particular the narcotics trafficking situation. Panama's shared border with Colombia leaves it vulnerable to narcotics trafficking, and, of greatest concern, incursions into the Darien Province by Colombian guerillas and narcotraffickers. It is arguably one of the most strategically located countries in the Western Hemisphere for drug trafficking and other organized criminal activities. Panama's location between South and North America, its long coastlines, its border with Colombia, and the Panama Canal make the country a key staging point for drug shipments and insurgent unrest originating in Colombia. It is crucial therefore that we remain committed to a partnership that promotes security for both the U.S. and Panama.

**II. FROM MCC TO FOLS**

Regarding the Panama Canal turnover and the U.S. military pull-out, while these changes caused operational difficulties for the U.S. in conducting regional detection and monitoring (D&M) operations, other forms of ongoing U.S. counternarcotics support provided by U.S. Southern Command and Joint Interagency Task Force South have been unaffected. Support was simply relocated to Florida. To address the problems relating to D&M operations, the Department of State, at DOD's request, initiated negotiations with a number of countries in the region to establish Forward Operating Locations (FOLS).

In June 1996, as part of ongoing negotiations regarding a possible post-1999 U.S. military presence, then-President Perez Balladares of Panama proposed a Multilateral Counternarcotics Center (MCC) to be based at Howard Air Force Base. The USG welcomed the idea of the MCC, but indicated to the Perez-Balladares government that, beyond using Howard as a platform for counternarcotics interdiction for a period of at least 12 years, the USG would require its use for training, regional logistics, search and rescue activities, and other related missions. We could not justify the cost of maintaining the base itself and the personnel,

equipment, and resources necessary to do the counternarcotics task without the ability to carry out these other activities. Though the Government of Panama gave some initial indications that it could agree with our requirements, after a referendum on presidential re-election failed in August 1998, a politically weak Perez Balladares asked that we end the talks. Accordingly, we issued a joint statement ending negotiations on September 24, 1998. In the end, our need for a cost-effective presence -- meaning one that permitted a full range of missions at Howard -- could not be reconciled with Panama's political requirements. Following the failure of the MCC negotiations, DOD went forward with plans to complete withdrawal from U.S. military facilities in Panama before December 1999. The last major facility transferred to Panama was Howard AFB in November 1999.

In the wake of the failure of MCC discussions and in view of the scheduled cessation of counterdrug activities from Howard AFB, DOD determined that U.S. counterdrug aerial tracking and monitoring capabilities in the narcotics source and transit zones would suffer significant degradation unless FOLs could be quickly negotiated elsewhere in the region. (Note: FOLs are not military bases nor a substitute for an MCC. They represent the deployment of limited numbers of U.S. personnel, equipment and aircraft to locally controlled airfields, for the sole purpose of supporting aerial counterdrug missions).

Under a DOD plan, operational/logistical support to aerial counterdrug missions by several USG agencies (DOD, DEA, USCG, and Customs) would be maintained by having authorized access to and use of existing (and improved) airport facilities in selected countries. DOD identified the primary FOL sites to be Manta, Ecuador, the Netherlands Antilles (Curacao) and Aruba, and an unspecified Central American site (which later became El Salvador). DOD planned and used Roosevelt Roads, Puerto Rico and U.S.-based locations as interim FOL sites until agreements on the primary sites were concluded and those facilities were operational.

Before Howard AFB completely ceased flight operations in May 1999, we concluded interim access and use agreements with Ecuador and with the Netherlands allowing us to begin expeditionary operations from Manta, Ecuador and Curacao/Aruba shortly thereafter. Since that time the U.S. has made significant progress toward finalizing long-term agreements which are already enhancing our capabilities. In November 1999, we successfully negotiated and signed a ten-year agreement with Ecuador for use of the Manta airfield. And in March 2000 we negotiated and signed long-term agreements with the Netherlands for use and access of air facilities on Curacao and Aruba, and with El Salvador for use and access to Comalapa Air Base.

### **III. Current Drug Threat**

Panama was fully certified as cooperating with the United States on counternarcotics in 1999. While Panama is not a significant producer of drugs or precursor chemicals, due to its strategic location, advanced transportation infrastructure, and financial development, it serves as a crossroads for transnational crime, including drug trafficking and money laundering. Panama's long land border and shared sea-lanes with Colombia, and its extensive Caribbean and Pacific coastlines make land and sea interdictions a major challenge. The Panama Canal, container seaports, the uncontrolled Colon Free Zone, the beginning of the Pan American Highway, an international hub airport, and numerous uncontrolled airfields create unlimited transportation

options for drug traffickers. Accordingly, Panama has become a major transshipment point for illicit drugs smuggled from Colombia into Panama via 'go-fast' boats, by containers transported by maritime cargo vessels that transit the canal or off-load in Panama's ports, by private and commercial overland vehicles, and aboard private and commercial aircraft. Colombian cocaine is in turn often stockpiled in Panama and repackaged for further shipment to the U.S. and Europe. Panama is also extremely vulnerable to money laundering due to its international banking sector, the Colon Free Zone, and the U.S. dollar based economy.

- **Colombia Spillover effects**

Panama continues to be a major drug transit country because of its proximity to the world's largest cocaine producer. The situation in Colombia is critical for the surrounding region. Colombia is increasingly threatened by well-armed and ruthless narcotics traffickers that are supported by guerrillas and paramilitaries. Not only is the Colombian Government unable to exert effective control over thousands of square miles of its own territory, but the border areas of neighboring countries are put at risk by the instability and violence as well. The corrosive powers of narcotics and narcotics money are ever-present threats to the institutions and economies of the entire region.

Spillovers into Panama are becoming a routine occurrence. Last week for example, the Panamanian Security Council confirmed the incursion of approximately 70 armed rebels into Panama's Darien province. The villages entered were not occupied nor were any acts of violence committed against the public. However, as a result, police were transferred from other areas to Darien to increase resident security. Pablo Quintero Luna, Executive Secretary of the Security Council described the Colombia/ Panama border situation as "delicate."

Earlier this week another incursion into Panama's Darien Province was reported, this time by alleged Colombian paramilitaries. Six heavily armed men robbed two stores in the Punta Alegre sector for cash, food, and equipment. Police were alerted but failed to respond due to the lack of necessary weapons. Forest engineer Luis Quinto, who works for the National Environmental Authority, confirmed the incursion and said that the security in the area is precarious due to the paucity of police units to counter these groups.

The situation in Colombia poses a considerable number of direct threats to U.S. national security interests, including the thousands of Americans killed by drugs and drug-related violence each year, losses to our economy from drug-related accidents, inefficiency in the workplace, and the social and human costs of abuse and addiction. After strained relations with the tainted Samper administration, President Pastrana's tenure and the proposed funding included in Plan Colombia offer the United States and Panama a golden opportunity to work with Colombia to confront such threats.

- **Counternarcotics Cooperation**

Panama is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. A mutual legal

assistance treaty and an extradition treaty are in force between the U.S. and Panama, despite Panama's law prohibiting the extradition of its own nationals. Panama has its own five year national drug strategy focusing on prevention, treatment and law enforcement.

Panama's law enforcement agencies maintain excellent relations with their U.S. counterparts and have demonstrated willingness and interagency cooperation. In 1999, the U.S. and Panama carried out four coordinated counterdrug operations. The Technical Judicial Police and the Panamanian National Police executed three major joint interdiction operations along the Costa Rican border against alien smugglers and drug traffickers.

The Moscoso administration took office in September 1999 and immediately made changes in the leadership of the law enforcement establishment. In addition to ministerial changes, the Director General of the National Panamanian Police, the Director of the National Air Service and the Director of the Joint Information Coordination Center were replaced. Throughout these changes, and despite difficulties resulting in overall internal law enforcement relations, the Moscoso Administration has displayed apparent commitment to counter-narcotics efforts. In 1999, Panamanian law enforcement agencies seized 2.5 metric tons of cocaine, over a metric ton of marijuana, approximately 60 kilograms of heroin, 600 liters of acetic anhydride, and over \$2.5 million. Between 130 and 150 suspects were arrested for drug-related offenses. Although 1999 cocaine seizures declined from record 1997-98 seizures, analysts believe the drug flow remains extremely high. Decreased seizures are attributed to changes in drug trafficking patterns from overland to maritime routes and the seizures of several multi-ton cocaine loads during the previous two years. (During the first weekend in June alone, Panamanian authorities seized nearly 700 kilograms of cocaine, in part through cooperative assistance provided by U.S. law enforcement agencies.)

In contrast to the number of 1999 cocaine seizures, heroin seizures continue to increase, further establishing Panama as a principal link in the chain that funnels Colombian heroin to the U.S. Approximately 44 kilograms of heroin were seized in Panama in 1999. South American heroin is typically smuggled through Tocumen International Airport by means of false-bottomed suitcases and couriers who often switch identification upon arrival.

- **Law Enforcement Bilaterals**

At the request of the Moscoso Administration, the U.S. and Panama began law enforcement bilateral discussions on November 23, 1999. Earlier this week, the government of Panama hosted the second round of law enforcement bilaterals. The issues discussed included law enforcement, specifically drug interdiction cooperation, alien smuggling, money laundering, and judicial reform. In addition to these issues, this particular round of bilateral discussions was concluded with the signing of a Stolen Vehicle and Aircraft Treaty. This further illustrates Panama's commitment to building successful law enforcement and justice institutions and enhancing bilateral cooperation beyond counternarcotics.

Major efforts were put forth by the U.S. delegation to further negotiations for a comprehensive six-part bilateral maritime agreement similar to agreements already established with Costa Rica and Honduras. A comprehensive maritime agreement is vital to Panama and the U.S. in stemming the flow of drugs. Negotiations should be concluded this year and will include authorization to board Panamanian-flagged vessels in international waters that are suspected of being involved in drug trafficking.

Although the six-part maritime agreement has not been formally approved, Panamanian law enforcement agencies continue to cooperate with their U.S. counterparts to coordinate current drug investigations. Moreover, on September 24, 1999, Panama and the U.S. signed a 'letter of understanding' that allows the Coast Guard Services of both nations to work together to seize drugs off the Panamanian coast and on the high seas.

Of notable success are the interdiction efforts by Panama's National Maritime Service (SMN). The SMN made numerous seizures of drugs, precursor chemicals and go-fast boats and despite pending negotiations of the proposed six part bilateral agreement, the SMN cooperates extensively with the USCG. The SMN in turn receives training, technical assistance and professional exchanges from the U.S.

We are also beginning to work with the private sector in Panama under our Americas Counter Smuggling Initiative. Under this program, Customs teams are set to the key source and transit countries to work with the manufacturers and transportation companies to seek to prevent the use of legitimate shipments for the transport of narcotics. It is our hope that the companies will set up Business Anti Smuggling Coalitions and seek to upgrade their security and other prevention techniques. A team just returned from Panama.

- **Financial Crimes**

While cooperation on money laundering improved significantly with the new administration, the investigation of money laundering offenses remains constrained by laws requiring prosecutors to tie money laundering directly to drug trafficking. This is difficult in a country where non-drug money laundering, specifically tax evasion, is pervasive. Formal anti-money laundering mechanisms are in place, but the ability to identify, investigate, and prosecute money laundering offenses consequently suffers from an inadequate legal framework. U.S. government officials are encouraging the Panamanians to seek legal reform that would extend the existing money laundering law beyond the laundering of drug proceeds to include the proceeds of other serious crimes. We are also urging them to pass legislation that would permit the Financial Analysis Unit (FAU) to share information with the foreign financial intelligence units. The FAU, created in 1995 with U.S. support, started receiving suspicious transaction reports in 1996 and began analyzing them for drug money laundering connections in 1997.

Panamanian law, however, does not allow the FAU to share information with foreign financial intelligence counterparts. As a result, Panama is currently being investigated by the Financial Action Task Force (along with 31 other jurisdictions) as a potentially non-cooperative jurisdiction.

Panama, and specifically the uncontrolled Colon Free Zone, is an especially attractive site for the Colombian Black Market Peso Exchange (BMPE). This is a complex process in which traffickers sell U.S. dollars to a U.S. foreign currency broker at a discount. The broker then repays with pesos in Colombia. Panama recently became a member of the multinational Black Market Peso Exchange Initiative, which met recently for the first time. We continue to encourage such cooperative efforts and active participation by the government of Panama.

Regarding asset forfeiture, Panama currently possesses the legal means needed to seize drug-related assets. The National Commission for the Study and Prevention of Drug Related Crimes (CONAPRED) is responsible for the distribution of forfeited property to various government agencies for drug prevention, rehabilitation, and law enforcement. Nevertheless, Panama does not have legislation that permits the sharing of such assets with foreign counterparts; rather, this issue is addressed on a case-by-case basis. The U.S. is in the process of drafting a proposed reciprocal asset-sharing agreement that will formalize such a process.

#### **IV. Other Serious Crimes**

- **Alien Smuggling**

Although Panama is not a significant source country for immigration into the U.S., it is a major transit point in the movement of illegal migrants en route to the United States. The movement of these migrants is facilitated through a large network of individuals engaged in human smuggling. The smugglers operate not only at a regional level but internationally as well. Migrants from countries such as Colombia, Ecuador, Peru, Cuba, India, and the Peoples Republic of China (PRC), are brought into and through Panama by various smuggling networks, which operate throughout the country. Human smugglers in Panama have prospered by conducting high profit/low risk operations.

Strict enforcement and prosecution of individuals engaged in smuggling operations is required to eliminate this illegal activity. To do this, the government of Panama needs to make alien smuggling a higher priority and strengthen its existing alien smuggling legislation.

While enforcement and prosecution of smugglers is not an absolute solution to the problem, it is a major step in the right direction. Corruption of government officials, who provide passports and visas, hinders enforcement efforts. Also, poorly paid immigration inspectors and border guards, who perceive alien smuggling as a victimless crime, are easily bribed to assist smuggled

aliens who are "only passing through." Elimination of this type of corruption is also required to stem the flow of alien smuggling operations.

Additionally, developing cooperative efforts to identify smugglers, the methods of operation and smuggling routes can be accomplished through regional networking. The network between Latin American countries has already been established through the creation of the PUEBLA Process. Regional communication throughout Latin America to coordinate enforcement strategies and to raise social awareness of the dangers of alien smuggling need to continue to make the process a success.

- **Stolen Vehicles**

According to U.S. law enforcement and insurance agencies, Panama has become an important destination for vehicles stolen from the U.S. Some of these vehicles are transported to Panama for the local market while others are routed there for transshipment. For more than two years the U.S. and Panama negotiated the text of a treaty for the repatriation of stolen vehicles and aircraft. The discovery in 1999 that the Panama chief negotiator was driving a Mercedes that had been stolen in Miami embarrassed Panama into serious action. The official was removed and agreement on a treaty text was speedily reached. It was recently signed at the second U.S./ Panama Law Enforcement Bilaterals held in Panama City.

A Technical Judicial Police (PTJ) report links stolen vehicles to drug trafficking. It highlights Central America as a transit zone by Colombian drug traffickers using stolen vehicles to transport drugs. Drug traffickers using land routes use primarily trailer trucks and Sports Utility Vehicles (SUVs). PTJ investigations determined that three Panama-based organizations use SUVs to transport drugs. The PTJ reports that drug dealers also steal vehicles to transport drugs. In September 1997, the PTJ Stolen Vehicle Section confiscated 4 stolen vehicles purchased by drug traffickers to transport drugs. By 1999, they had confiscated 49 vehicles stolen only to transport drugs.

In addition to signing the Stolen Vehicle and Aircraft treaty, Panama would benefit from the establishment of regulations to define procedures for dealing with stolen vehicles and their purchasers. Falsification of documents specifically relating to stolen vehicles should be criminalized.

## **V. Conclusion**

The incursion of Colombian guerrillas, paramilitary groups, and drug traffickers have increased Panamanian awareness of the security dangers facing their country. The public awareness of such security issues and the apparently cooperative Moscoso Administration improve the prospect for bilateral cooperation between Panama and the U.S. This was made evident by the recent law enforcement bilateral meetings hosted by Panama.

The return of the Canal to Panamanian control changed the relationship between Panama and the U.S., arguably for the better. A major benefit was that it opened the way for a greater sense of partnership by putting an end to contention over the Canal.

Panama faces complex and daunting problems, not only those emanating from the Colombian crisis, but also others that are outgrowths of institutional weaknesses. Our challenge, as a neighbor and partner, is to identify ways in which we can assist Panama in resolving its narcotics-related and other problems. At this moment, Panama is a partner who shares our counternarcotics concerns and possesses the will to proceed with needed reforms, bilateral agreements and operations.

I look forward to working closely with Congress as we continue to address these critical issues.



Mr. MICA. I'll recognize next Ana Maria Salazar, who is with the Department of Defense, Drug Enforcement Policy and Support. You're recognized.

Ms. SALAZAR. Thank you, Mr. Chairman. I'm pleased to have the opportunity to testify once again before the subcommittee and to provide an update on the status of our forward operating locations.

At this time, I would like to summarize my statement and submit a written statement for the record.

Mr. MICA. Without objection, your entire statement will be made a part of the record. Please proceed.

Ms. SALAZAR. As you know, a year ago last month the runway at Howard Air Force Base in Panama closed and the interagency began conducting counterdrug flights on an expeditionary bases from existing commercial facilities in Aruba, Curacao and the Ecuadorian military airfield in Manta. Since the last time I testified a year ago on this issue, we have made important progress toward replacing and enhancing our capabilities.

In November 1999, the Government of the United States and Ecuadorian Government signed a 10-year agreement for the use of the Manta airfield to support interagency counterdrug missions throughout the source zone, including Colombia, which supplies 90 percent of the cocaine shipped to the United States. The FOL at Manta is now capable of 24-hour, 7-days-per-week, all-weather flight operations. United States Navy P-3s are conducting Eastern Pacific counterdrug detection and monitoring missions from this facility as we speak. The Manta airfield is suitable for United States Customs Service P-3 operations, and the deployments are currently scheduled for this month. This fact alone will allow the United States to increase the surveillance capability in the source zone tremendously.

In March of this year, our government and the Kingdom of the Netherlands signed a similar 10-year agreement for the critical coverage of the northern source zone and Caribbean portions of the transit zone.

The United States Customs Service has been flying from Aruba since April 1999, and the Department of Defense has been operating with aircraft such as the F-16s, United States Navy P-3s and E-2s, United States Air Force AWACS, as well as other Intelligence, Surveillance and Reconnaissance platforms from Curacao since May of last year.

Shortly after initiating flight operations from the FOLs, the interagency exceeded pre-Howard closure counterdrug detection and monitoring on-station time by 15 percent. Furthermore, transit zone detection increased by 50 percent; and maritime-related cocaine seizures climbed by over 500 percent.

Most recently, in March 2000, we signed a 10-year agreement with the Government of El Salvador for the use of Comalapa Air Base, which will support P-3 counterdrug flights in the Eastern Pacific and Western Caribbean portion of the transit zone. This agreement is pending ratification by the Salvadorian legislative assembly prior to initiating counterdrug operations.

Geographically, the El Salvador location optimizes the integrated coverage of the three FOLs, minimizing overlaps while simultaneously extending the reach of airborne counterdrug missions to

the northern region of the Eastern Pacific transit zone along the west coast of Mexico.

Although progress has been made, important challenges still remain. The vast majority of D&M on-station hours were flown in support of counterdrug transit zone missions, primarily in the Caribbean. In fact, source zone on-station time has decreased by 75 percent.

We need to increase our airborne D&M coverage over the source zone to complement the Puerto Rican ROTH, which has completed its testing phase and is now fully operational, providing unprecedented coverage over southern Colombia. Once full operational capability is established at each of the FOLs, the interagency will have significantly greater source and transit zone coverage than existed when counterdrug operations were flown out of Howard Air Force Base.

I would like to briefly talk about some of the issues that you have raised in regard to Panama.

I know that members of the subcommittee are concerned about how and what effect illegal drug trade is having on Panama. From DOD's perspective and perhaps the interagency at large, we are closely monitoring the situation, and we stand ready to assist Panama, as with any other country in the region, in support of that country's security concerns. We do not foresee, however, any counterdrug requirement for an FOL-like presence in that country at this point.

The El Salvador FOL meets or exceeds all Department requirements and optimizes the synergetic effect of the geographical situation of the three locations. A Panama site suboptimizes the FOL architecture because its coverage—the region that it would be covering would overlap that provided by the other operating locations.

However, we are engaged with the Government of Panama in counterdrug concerns. There have been ongoing bilateral discussions, as mentioned by Assistant Secretary Rand Beers; and SOUTHCOM has participated in those efforts. However, until Panama signs a visiting forces agreement, an agreement that we have in many countries around the hemisphere, it will be very difficult for DOD to increase dramatically their support.

I would like to briefly talk about the Colombia supplemental. Most of the required military construction funding for the FOLs is currently contained in the fiscal year 2000 supplemental developed to support Plan Colombia. From an execution perspective, the Department requires a funding as soon as possible, especially in the case of the Manta FOL, which could go to contract as early as July.

President Pastrana has asked for international support to address an internal problem that has international dimensions fueled in part by our country's demand for cocaine. It is a long-time sense that we should move forward on the Colombian supplemental, and I hope that we can do so soon.

We cannot execute our congressional mandated mission to curb the shipment of illegal drugs without the FOLs. The Department of Defense along with our interagency partners has made important progress over the past year, and with the continued congressional support we hope to continue to do so in the future.

I thank you for affording me the opportunity to speak to you in regards to the FOLs and Panama; and, with that, I look forward to answering your questions.

[The prepared statement of Ms. Salazar follows:]

ANA MARIA SALAZAR

DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR  
DRUG ENFORCEMENT POLICY AND SUPPORT

UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON GOVERNMENT REFORM  
SUBCOMMITTEE ON CRIMINAL JUSTICE, DRUG POLICY,  
AND HUMAN RESOURCES

*“COUNTER-DRUG IMPLICATIONS OF THE U.S. LEAVING PANAMA”*

June 9, 2000

**STATEMENT FOR THE RECORD**

I am pleased to have the opportunity to testify before this Subcommittee to provide an update on the status of our Forward Operating Locations (FOLs) from which aerial counterdrug missions have been flown since the closure of Howard Air Force Base in Panama. These FOLs provide critical support for aerial counterdrug missions in South and Central America as well as the Caribbean and Eastern Pacific regions, through which drugs are transported to the United States.

As you know, a year ago last month the runway at Howard Air Force Base closed and the interagency began conducting counterdrug flights on an expeditionary basis from existing commercial facilities in Aruba and Curacao. In June of 1999 we began flying counterdrug

missions from the Ecuadorian Air Force Base in Manta, Ecuador. Since that time we have made significant progress towards enhancing our capabilities.

In November of 1999, the Governments of the U.S. and Ecuador signed a ten-year agreement for the use of the Manta airfield for interagency counterdrug flights. Likewise, in March of this year, our Government and the Kingdom of the Netherlands signed a similar ten-year agreement, which is provisionally in effect with expected parliamentary approval, for the FOL on the islands of Aruba and Curacao. The Aruba and Curacao FOL supports counterdrug operations in both the source and transit zones. Most recently, in March of 2000, we signed a ten-year agreement with the Government of El Salvador for the use of Comalapa Air Base, adjacent to El Salvador International Airport in San Salvador, which will support counterdrug flights in the Eastern Pacific and Western Caribbean portions of the transit zone. However, in spite of these successes, significant challenges remain.

Shortly after initiating counterdrug flight operations from the FOLs, the interagency surpassed, by 15 percent, the counterdrug detection and monitoring mission on station time that was previously flown from Howard Air Force Base. However, due to the lack of all weather capability – among other safety of flight concerns -- at the Manta FOL, the vast majority of those on station hours were flown in support of counterdrug transit zone missions, primarily in the Caribbean. While many of these concerns have been addressed, several significant projects must be completed at the Manta FOL prior to opening the site to all airborne platforms conducting counterdrug missions in the source zone. Once full operational capability is established at each

of the FOLs, the interagency will have significantly greater source and transit zone coverage than existed when counterdrug operations were flown out of Howard Air Force Base.

Let me briefly expand on the importance of each of the FOLs in executing the Department's counterdrug mission.

#### Manta, Ecuador

The Manta FOL is the key to enhancing our source zone and Eastern Pacific counterdrug presence. It is the only FOL that can support counterdrug missions throughout the source zone, providing the necessary reach into southern Peru, Bolivia and most importantly Colombia – which supplies the largest percentage of cocaine shipped to the United States. The FOL at Manta is now capable of 24 hour, 7 days per week, all-weather flight operations. U.S. Navy P-3 Maritime Patrol Aircraft (MPA) are conducting Eastern Pacific counterdrug detection and monitoring missions from this facility. Runway upgrades, which include increasing load bearing capacity, as well as improved taxiways, are required to support AWACS Airborne Early Warning (AEW) aircraft. However, the airfield is currently suitable for U.S. Custom's Service P-3 AEW operations – which have similar requirements as the U.S. Navy P-3s. The Air Force is prepared to award a contract for the runway and taxiway upgrades in July, provided that funding is made available through the Colombian Supplemental. It is expected that the Manta FOL will be shutdown for six to eight months during the construction period, however, the contract has been written to provide incentives for early completion of the project. U.S. Southern Command is in

the process of making arrangements for alternative sites to support continued counterdrug flight operations for the duration of the period that the runway is out of service. It is expected that AWACS flight operations will commence out of Manta in the summer of 2001 and that all construction will be completed by June of 2002, whereupon the FOL capacity will increase from three medium P-3 sized aircraft to up to four large and seven medium sized aircraft.

#### Aruba / Curacao

The airports that constitute the FOL at Aruba and Curacao provide critical coverage of the northern source zone and the Caribbean portion of the transit zone. The islands are uniquely situated along preferred Caribbean maritime and airborne transit corridors used by drug smugglers to move their products north to Haiti and Puerto Rico. The U.S. Customs Service began operating aircraft from the island of Aruba in April of 1999. The Department of Defense has been operating aircraft, such as Air National Guard F-16s, U.S. Navy P-3 MPA and E-2 AEW, and U.S. Air Force E-3 AWACS as well as other Intelligence, Surveillance, and Reconnaissance (ISR) platforms, from Curacao since May of last year. Both airfields require pavement improvements and rinse facilities as well as additional maintenance and operations buildings. Counterdrug flights will continue from these airfields while improvements are made during Fiscal Year 2001. Upon completion of the construction period, in December of 2002, the Aruba location will support two medium and three small aircraft and the Curacao FOL will provide the required space for two large, two medium, and six small aircraft.

El Salvador

The Department's requirement for a Central American FOL will be fulfilled through utilization of the airfield at the Comalapa Air Base, which is co-located with the El Salvador International Airport in San Salvador. The Government of El Salvador signed a ten-year agreement in March of this year, and we are awaiting notification of that by the Salvadoran legislative assembly. Geographically, the El Salvador location optimizes the integrated coverage of the three FOLs, minimizing overlaps while simultaneously extending the reach of airborne counterdrug missions to the northern regions of the Eastern Pacific transit zone along the west coast of Mexico. The El Salvador FOL will support operations of four P-3 MPA sized aircraft which will focus primarily on the maritime counterdrug detection and monitoring mission. While the El Salvador FOL can support AWACS sized aircraft, there are no plans to operate such platforms from the airfield since the primary drug trafficking threat in that region of the transit zone is maritime in nature. Funding for an aircraft parking apron, as well as rinse and support facilities, will be requested in the FY02 budget and construction should complete that same year.

Panama Concerns

I know that members of this Subcommittee, and others in Congress, are concerned about the effect that the illegal drug trade is having on Panama. The shared border between Colombia and Panama provides insurgent elements a convenient location to avoid pursuit by Colombian military and police forces and further serves as a conduit for traffickers to move drug shipments



to the north. The Department, and interagency at large, are closely monitoring the situation and stand ready to assist Panama, as with any other country in the region, in support of that country's security concerns. However, that being said, there is no counterdrug requirement for an FOL like presence in the country of Panama. The geographical location of the El Salvador FOL meets or exceeds all Department requirements and, as noted previously, optimizes the synergistic effect of the separation of the three sites. A Panama site sub-optimizes the FOL architecture because its coverage region would overlap that provided by the other sites. Additionally, its southerly location does not provide coverage of the northern regions of the Eastern Pacific transit zone along the west coast of Mexico.

#### Colombia Supplemental

The required military construction (MILCON) funding for the FOLs is currently contained in the FY2000 Emergency Supplemental developed to support Plan Colombia. From an execution perspective, the Department requires the funding as soon as possible, especially in the case of the Manta FOL, which is scheduled to go to contract in July. From a broader policy perspective, the Department of Defense strongly supports this supplemental and appreciates the House passage of the funds in late March. U.S. Southern Command and SO LIC/DEP&S participated extensively in its formulation. The Supplemental not only supports the FOL architecture, it integrates fully our source zone strategy, affording the opportunity to enhance those counterdrug programs in Colombia that have proven successful in Peru and Bolivia. President Pastrana, Minister of Defense Rameirez, and CNP Commander General Serrano have

asked for international support to address an internal problem that has international dimensions -- fueled in part by our country's consumption for cocaine and heroin. It is long since time that we move forward on the Colombian Supplemental and I hope that we can do so soon.

In summary, the counterdrug FOLs are critical to executing the Department's detection and monitoring mission in support of host nation and interagency efforts to curb the shipment of illegal drugs to the U.S. We can not execute our congressionally mandated mission without the FOLs. The Department of Defense, along with our interagency partners, has made significant progress over the past year and, with continued congressional support, we hope to continue to do so in the future.

Mr. MICA. We will withhold questions until we've heard from our final witness. And that witness is William Ledwith, Chief of International Operations for our Drug Enforcement Administration under the Department of Justice. Welcome and you're recognized sir.

Mr. LEDWITH. Good morning, sir.

Mr. MICA. You might have to pull that up close. For some reason, they're not picking up over there.

Mr. LEDWITH. Good morning, sir.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before the subcommittee today on the subject of Panama. My comments will be limited to an objective assessment of the law enforcement issues involving drug trafficking and money laundering in and through the country of Panama. I would like to again express my thanks to the subcommittee for your continued support of the Drug Enforcement Administration and for your overall support of drug law enforcement.

Today's organized crime leaders are strong, sophisticated and extremely destructive. They have the capability of operating on a global scale. They are callous individuals who send their surrogates to direct the distribution of the drugs they ship to the United States. These organizational leaders have at their disposal airplanes, boats, vehicles, radar, communications equipment, money and weapons in quantities that rival the capabilities of some legitimate governments.

Panama is the most strategically located country in the Western Hemisphere for drug trafficking and other transnational crime. Panama's location between South America and North America, with its long coastlines, its border with Colombia, and the Panama Canal make the country a key transit point for drug shipments originating in Colombia for further shipment north.

Other factors which make Panama attractive to major drug traffickers are its weak law enforcement and public security institutions, its large and sophisticated international banking sector, the Colon Free Zone and cargo container port facilities on both ends of the Panama Canal.

Panama continues to be threatened by Colombian drug trafficking organizations that utilize containerized cargo, aircraft, maritime vessels and the Pan American Highway in order to transport their illicit drugs through Panama.

In addition, these same drug trafficking organizations utilize the Panamanian economy in order to launder their billions of dollars in drug proceeds through the Colon Free Zone.

To combat this threat, the Government of Panama continues to cooperate with DEA to investigate and prosecute these transnational drug criminals.

In 1999, Panamanian agencies seized a significantly reduced amount of cocaine and marijuana. This was principally due to changing trafficking methods and Panamanian authorities' lack of resources and training to respond to these changes.

However, cocaine and heroin seizures in 2000 are on a pace to exceed the record seizures made by Panamanian authorities in 1998. Panama continues to be a major financial and commercial center, ideally positioned for illicit financial transactions and drug

smuggling. Panama's international banking center, a long-established tax haven, combined with the Colon Free Zone and a United States-dollar-based economy, render Panama vulnerable to money laundering.

The Colon Free Zone is second only to Hong Kong as the largest free zone in the world and is the largest in the Western Hemisphere. The Colon Free Zone comprises over 161 acres of warehouses and showrooms which accommodate over 1,600 companies. Operating as a free trade zone, the CFZ is an area where goods can be imported and reexported without being subject to tariffs, quotas or taxes. Therefore, importers throughout Latin America can purchase a wide variety of these products at a competitive price.

In addition, CFZ merchants will routinely accept third-party checks, money orders, wire transfers and cash as payment for these goods.

Illegal narcotic sales in the United States generate billions of dollars annually, most of it in cash. Efforts to legitimize or launder this cash by the Colombian drug cartels are subject to detection because of intense scrutiny placed on large financial transactions by United States banks and institutions. To avoid detection, the drug cartels have developed a number of money laundering systems that subvert financial transaction reporting requirements and manipulate facets of the economy unrelated to the traditional financial services industry.

One such form of money laundering is known as the Black Market Peso Exchange. The Black Market Peso Exchange is a complex system currently used by drug trafficking organizations to launder billions of dollars of drug money each year. In addition, this financial scheme exploits the advantages of the CFZ, which serves as an integral link in the Colombian money laundering chain.

The Black Market Peso Exchange is an underground financial system used to evade reporting and recordkeeping requirements mandated by the United States Bank Secrecy Act, as well as by Colombian foreign exchange and import laws and tariffs.

Money brokers, utilizing pesos, purchase United States dollars from narcotics dealers in Colombia in exchange for Colombian pesos. These United States dollars are sold to Colombian importers in exchange for Colombian pesos. The United States dollars purchased by Colombian importers are used to pay for merchandise bought in the CFZ. The purchased goods are shipped to Caribbean or South American destinations, sometimes via even Europe or Asia, then smuggled or otherwise fraudulently entered into Colombia.

The Colombian importer takes possession of his goods, having avoided paying extensive Colombian import and exchange tariffs, and they pay the peso broker for the items with Colombian pesos. The peso broker, who has made his money charging both the cartels and the importers for his services, uses those new pesos to begin the cycle once again.

These investigations are extremely complex and require cooperative law enforcement efforts between the United States and Panama. Although cooperation between the United States and Panama on money laundering investigations has improved, the pursuit of such investigations remains constrained by Panamanian laws re-

quiring prosecutors to satisfy an unusually high burden of proof and to meet extremely difficult evidentiary standards.

Under Panamanian law, if a merchant demonstrates that transactions include real goods and that payment is at fair market value, he is not engaged in money laundering. Thus, willful ignorance of the law is not a crime.

From the Panamanian perspective, criminal money laundering takes place only when a person moves cash without a commensurate exchange of goods and the cash involved results from specific drug transactions.

These legal loopholes continue to be exploited by money laundering organizations operating in the Colon Free Zone.

In conclusion, as the gateway to the Caribbean, Panama continues to provide a significant link between South American drug cartels and their ability to transport their poisons to the continental United States. The country of Panama is singular in the opportunities it provides for traffickers, as well as the challenges it creates for law enforcement authorities.

Over the past several years, the United States Government has refocused a great deal of asset and enforcement initiatives along the southwest border in order to address the threat posed by Mexican drug trafficking organizations and their alliance with Colombian drug cartels. While these initiatives have resulted in outstanding successes, we remain concerned about the increased drug trafficking activity throughout the entire Panamanian and Caribbean regions. I can assure you that the DEA will, therefore, remain diligent in our efforts to respond to any apparent shift in drug trafficking trends.

The use of Panama as a drug transit zone by Colombian drug trafficking organizations, as well as a means of securing their narcotics proceeds, creates unique challenges to Panamanian United States law enforcement authorities. We are dedicated to cooperative drug enforcement investigations with our Panamanian counterparts in order to address this threat.

Mr. Chairman, thank you for the opportunity to appear before this subcommittee today. I sincerely appreciate the interest that you and the subcommittee have shown in DEA's counterdrug role in Panama. At this time, I will be happy to answer any questions you may have.

Mr. MICA. Thank you.

[The prepared statement of Mr. Ledwith follows:]

Remarks by

**William E. Ledwith**  
*Chief, Office of International Operations*  
*Drug Enforcement Administration*

Before

**The House Subcommittee on Criminal Justice, Drug Policy, and Human Resources**

Mr. Chairman and Members of the Subcommittee: I appreciate the opportunity to appear before the Subcommittee today on the subject of Panama. My comments will be limited to an objective assessment of the law enforcement issues involving drug trafficking and money laundering in and through the country of Panama. I would like to again express my thanks to the Subcommittee for your continued support of the Drug Enforcement Administration (DEA) and overall support of drug law enforcement.

The 9,000 dedicated men and women of the DEA are committed to preserving the quality of life of the citizens of the United States. The agency directs and supports investigations against the highest levels of the international drug trade, their surrogates operating within the United States, and those traffickers whose violence and criminal activities destabilize towns and cities across the country. These investigations are intelligence-driven and frequently involve the cooperative efforts of numerous other law enforcement organizations.

It is important to understand the threat posed by international drug organizations and why cooperative law enforcement programs in the domestic as well as the international arena are necessary to successfully counter drug trafficking and money laundering within the United States. The leaders of these drug trafficking organizations command powerful organized crime syndicates that control virtually all of the heroin, cocaine and methamphetamine sold in the United States today.

Today's organized crime leaders are strong, sophisticated, and destructive and have the capability of operating on a global scale. They are callous individuals who send their surrogates to direct the distribution of the poison they ship to the United States. These organizational leaders have at their disposal airplanes, boats, vehicles, radar, communications equipment, and weapons in quantities that rival the capabilities of some legitimate governments.

Whereas previous organized crime leaders were millionaires, the Colombian drug traffickers and their counterparts from Mexico are billionaires. They have learned to exploit a variety of weaknesses in order to protect their drug profits, which are the lifeblood of these organizations. Their ultimate purpose is to amass large sums of money in order to maintain their obscene and lavish lifestyle free from the boundaries or confines of the law.

**Overview:**

Panama is the most strategically located country in the Western Hemisphere for drug trafficking and other transnational crime. Panama's location between South America and North America, with its long coastlines, its border with Colombia, and the Panama Canal make the country a key transit point for drug shipments originating in Colombia for further shipment north. Panama's 225 kilometer land border with Colombia, its 2,870 kilometers of Caribbean and Pacific coastline, and over 1,480 islands make for an almost impossible task of policing its borders. Other factors which make Panama attractive to major drug traffickers are its weak law enforcement and public security institutions, its large and sophisticated international banking sector, the Colon Free Zone (CFZ), and cargo container port facilities on both ends of the Panama Canal. In addition, Panama is also an international air hub with flights to the Americas, the Caribbean, Asia, and Europe. Furthermore, Panama's airspace is uncontrolled and there are several smaller domestic airports in addition to the Tocumen International Airport located outside Panama City.

**Trafficking Trends:**

Panama is a key area for the transit of cocaine, heroin and precursor chemicals. Drug shipments pass through Panama by land, sea, and air routes. Fishing vessels, cargo ships, and "go-fast" boats transit Panamanian waters and either continue on to other Central American countries or drop off their cargo in Panama. After cocaine arrives in Panama, traffickers repackage it either for transportation northward along the Pan-American Highway or for sea freight transport. Cocaine entering Panama from air routes is brought in by small planes that enter Panamanian airspace to drop the drugs off in remote, lightly populated areas along the Caribbean coast. Couriers transport smaller amounts of heroin and cocaine on commercial air flights, particularly to Spain, the Netherlands, Germany, and the United Kingdom.

The government of Panama continues to demonstrate its willingness to combat transnational drug trafficking. In 1999, Panamanian agencies seized 2,576 kilograms of cocaine, 1,558 kilograms of marijuana, 600 liters of acetic anhydride, 46 kilograms of heroin and made 131 arrests for international drug trafficking related offenses. Although 1999 cocaine seizures declined from 1997-1998 seizures, decreased seizures were due to changes in drug trafficking patterns as a result of aggressive interdiction efforts, rather than change in flow. Heroin seizures continued to increase, further establishing Panama as a principal link in the chain that funnels Colombian heroin to the United States.

Traditionally, Panamanian law enforcement officials have focused interdiction assets on containerized cargo arriving from source countries. However, traffickers have shifted to utilizing containers from non-source countries in addition to coastal freighters and fishing vessels for the movement of drugs, pre-cursor chemicals and currency. The

large maritime industry and the use of containerized cargo to transport illicit drugs make Panama an attractive transit zone for Colombian drug traffickers.

The Colon Free Zone (CFZ) and the Ports of Cristobal and Coco Solo, located at the Atlantic entrance of the canal, are primary targets of interest for counterdrug law enforcement authorities. The Port of Cristobal has containerized cargo facilities that allow it to directly load containers onto the beds of trucks. The Port of Coco Solo supports a container transshipment facility as well as coastal shipping activity. In 1999, several containerized shipments of cocaine that transited through Panama were intercepted in other transit countries such as Guatemala, and in final destination countries such as Spain, Turkey, Russia, and the Netherlands. The most significant cocaine seizure from cargo occurred on March 2, 1999, when a cargo container destined for Guatemala was found to contain 335 kilograms of cocaine.

Drug traffickers continue to smuggle drugs into Panama utilizing go fast boats along the Caribbean and Pacific coasts. Interdiction efforts have resulted in several significant cocaine seizures from the pursuit of "go-fast" boats operated by Colombian crews. The most significant maritime seizure in 1999 occurred following a high-speed chase of two go-fast boats on the Pacific coast, which terminated in the Gulf of Panama. Authorities subsequently arrested three suspects and seized 385 kilograms of cocaine and 600 liters of acetic anhydride.

The Pan-American Highway is the principal transportation route for overland movement of drugs out of Panama. Drug trafficking organizations frequently utilize tractor-trailers to transport their illicit contraband across Central American borders. The drugs are routinely co-mingled with legitimate merchandise or secreted in false walls or floors.

Improved law enforcement presence at the Costa Rican border crossing at Paso Canoas led to several large seizures and a change in smuggling tactics along the Pan-American Highway. Instead of risking large shipments of drugs transported in tractor-trailers, traffickers are utilizing private vehicles to transport smaller loads of drugs through informal border crossings into Costa Rica. Once the contraband is safely staged in Costa Rica, it is routinely consolidated into tractor-trailers and sent north to Guatemala via the Pan-American Highway.

Drug trafficking organizations routinely utilize general aviation aircraft to smuggle contraband into and through Panama. Trafficking organizations have learned to exploit the inability of Panamanian authorities to distinguish between legal and illegal flights entering Panamanian airspace. Low flying aircraft have been known to drop their drug cargo into the waters off the Panamanian coast, near small vessels or on small deserted islands, usually at night. Contraband that is airdropped into the Gulf of Panama and the Eastern Pacific Caribbean area is smuggled into the CFZ where it is co-mingled with legitimate cargo prior to being transported to other destinations.



**The Colon Free Zone (CFZ):**

Panama continues to be a major financial and commercial center, ideally positioned for illicit financial transactions and drug smuggling. Panama's international banking center, a long established tax haven, combined with the Colon Free Zone (CFZ) and a U.S. dollar-based economy render Panama vulnerable to money laundering. The CFZ is second only to Hong Kong as the largest free trade zone in the world and is the largest in the Western Hemisphere.

The Colon Free Zone (CFZ) was created on June 17, 1948 through the passage of Law No. 18. Located at the Atlantic entrance to the Panama Canal, the purpose of the CFZ was to generate economic activity in the city of Colon after the end of World War II. Originally, 14 acres of land were set aside in the Island of Manzanillo for the CFZ. Operating as a free trade zone, the CFZ is an area where goods can be imported and re-exported without being subject to tariffs, quotas, and taxes. Therefore, importers throughout Latin America can purchase a wide variety of these products at a competitive price.

The CFZ comprises over 161 acres of warehouses and showrooms, which accommodates over 1,600 companies. Buyers throughout Latin America can purchase a variety of goods from all over the world at less than bulk amounts at bulk rate prices. The CFZ is an area where container loads of different products are broken down and repackaged. Thus, buyers do not have to purchase a whole container load of one product, but can instead choose different products, all to be shipped at once. In addition, CFZ merchants will routinely accept third party checks, money orders, wire transfers, and cash as payment for goods

**Money Laundering:**

Illegal narcotic sales in the United States generate billions of dollars annually, most of it cash. Efforts to legitimize or "launder" this cash by the Colombian drug cartels are subject to detection because of intense scrutiny placed on large financial transactions by U.S. banks. To avoid detection, the cartels have developed a number of money laundering systems that subvert financial transaction reporting requirements and manipulate facets of the economy unrelated to the traditional financial services industry. One such form of money laundering is known as the Black Market Peso Exchange (BMPE). The BMPE is a complex system currently used by drug trafficking organizations to launder billions of dollars of drug money each year. In addition, this financial scheme exploits the advantages of the CFZ, which serves as an integral link in the Colombian money laundering chain.

The BMPE is an underground financial system used to evade reporting and record keeping requirements mandated by the U.S. Bank Secrecy Act (31 USC 5311, et seq.), as well as Colombian foreign exchange and import laws and tariffs. Money (peso) brokers purchase U.S. dollars from narcotics dealers in Colombia, in exchange for Colombian pesos. These U.S. dollars are sold to Colombian importers in exchange for Colombian pesos. The U.S. dollars purchased by Colombian importers are used to pay for merchandise bought in the CFZ. The purchased goods are shipped to Caribbean or South American destinations, sometimes via Europe or Asia, then smuggled or otherwise fraudulently entered into Colombia. The Colombian importer takes possession of his goods, having avoided paying extensive Colombian import and exchange tariffs, and pays the peso broker for the items with Colombian pesos. The peso broker, who has made his money charging both the cartels and the importers for his services, uses those new pesos to begin the cycle once again.

These investigations are extremely complex and require cooperative law enforcement efforts between the U.S. and Panama. Although cooperation between the U.S. and Panama on money laundering investigations has improved, the pursuit of such investigations remains constrained by Panamanian laws requiring prosecutors to satisfy an unusually high burden of proof and to meet extremely difficult evidentiary standards.

Under Panamanian law, if a merchant demonstrates that transactions include real goods, and payment is at fair market value, he has not engaged in money laundering; thus, willful ignorance of the law is not a crime. From the Panamanian perspective, criminal money laundering takes place only when a person moves cash without a commensurate exchange of goods, and the cash involved results from specific drug transactions. These legal loopholes continue to be exploited by money laundering organizations operating in the CFZ.

**Conclusion:**

As the gateway to the Caribbean, Panama continues to provide a significant link between South American drug cartels and their ability to transport their poison to the Continental United States. The country of Panama is singular in the opportunities it provides for traffickers, as well as the challenges it creates for law enforcement authorities. Over the past several years, the U.S. Government has refocused a great deal of our assets and enforcement initiatives along the Southwest Border in order to address the threat posed by Mexican drug trafficking organizations and their alliance with Colombian drug cartels. While these initiatives have resulted in outstanding success, we remain concerned about the increased drug trafficking activity throughout the entire Panamanian and Caribbean regions. I can assure you that the DEA will therefore, remain diligent in our efforts to respond to any apparent shift in drug trafficking trends.

The use of Panama as a drug transit zone by Colombian drug trafficking organizations as well as a means of securing their narcotics proceeds, creates unique

challenges to Panamanian and U.S. law enforcement authorities. The DEA is dedicated to cooperative drug enforcement investigations with our Panamanian counterparts in order to address this threat.

Mr. Chairman, thank you for the opportunity to appear before this subcommittee today. I appreciate the interest that you and the subcommittee have shown in the DEA's counterdrug role in Panama. At this time, I will be happy to answer any questions you may have.

Mr. MICA. I will start with some questions.

Again, from all the papers that have disclosed the existence of—I believe it is a Customs report that I had not seen—Mr. Beers, have you seen the Customs report?

Mr. BEERS. Sir, I have it in my possession, and I looked briefly at it, but I haven't had a chance to read it closely.

Mr. MICA. How about you, Ms. Salazar?

Ms. SALAZAR. I have not seen that report, and I believe it was not cleared through the Department of Defense.

Mr. MICA. Mr. Ledwith.

Mr. LEDWITH. I have not had a chance to review it yet, sir.

Mr. MICA. First of all, I am going to request from Customs a copy of the report and, if necessary—hopefully, they will voluntarily provide it to the subcommittee. If not, I will consult with Chairman Burton about subpoenaing the report.

The report—and again I only have the press reports of what it says—there is a quote that intelligence sources indicate that Chinese and Russian organized crime factions are active in narcotics, arms and illegal alien smuggling, utilizing Panama as a base of operations.

Are you aware of those activities, Mr. Ledwith?

Mr. LEDWITH. There is intelligence indicating that there is significant Chinese involvement in that part of the world, yes, sir.

Mr. MICA. The other part of this says—and again I have to quote from this—says drug seizures by authorities in Panama declined by 80 percent last year from 1998 levels, and no major narcotics traffickers or money launderers were arrested.

Is this factual, Mr. Beers?

Mr. BEERS. Yes, sir. If you aggregate the cocaine, the marijuana and the heroin seizures, that is an accurate statement, but it is based entirely on the drop in the area of marijuana. Both cocaine and heroin seizures went up. However, having said that, it is also true that if you take 1998 as your base year everything went down.

Mr. MICA. I had invited General Wilhelm to come today, and he wasn't able to be with us, for scheduling reasons. He did submit this letter, which I think the minority also has.

Without objection, Mrs. Mink, I would ask that it be made a part of the record. Is that acceptable that we submit that? I think they supplied you with a copy.

[The information referred to follows:]

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REPLY TO  
ATTENTION OF**DEPARTMENT OF DEFENSE**  
**UNITED STATES SOUTHERN COMMAND**  
**OFFICE OF THE COMMANDER IN CHIEF**  
3511 NW 91ST AVENUE  
MIAMI, FL 33172-1217

June 8, 2000

Commander in Chief

Honorable John L. Mica  
United States House of Representatives  
Washington, DC 20515-0907

Dear Congressman Mica,

Thank you for the opportunity to appear before your subcommittee regarding the counterdrug implications of the USG's departure from Panama, and to provide an update on our forward operating locations (FOLs). I am pleased to note your continued interest in the narco-terrorist threat posed by Colombian rebels: a threat that I believe is as great to the Andean region as it is to the citizens of Colombia.

Although we have progressed, I would offer a mixed review of the FOLs. We have completed our diplomatic agreements for Curacao/Aruba and Manta, Ecuador, and we initiated an agreement with the government of El Salvador for a site in Comalapa. The agreement will be complete once ratified by the Salvadorian congress.

However, despite these diplomatic successes, we still require the funding necessary to make these sites fully operational and as part of the Colombian aid package, that funding is stalled on Capitol Hill. Until the funds are available and the work on the airfields is complete, we estimate our capability will continue to be approximately one third of what it was in Panama.

The narco-terrorist situation in Colombia remains a complex challenge to the government of Colombia (GOC) but is not limited to an insurgency. The GOC is striving to reach a peaceful solution to their social, political and economic problems while dealing with both principal guerrilla groups and an equally violent paramilitary force.

The stalled Colombian aid package has the potential to encourage the peace process and to reinvigorate the Colombian economy. It will potentially enhance GOC governing capability, strengthen democratic institutions, advance human rights and reduce the money available to guerrillas and paramilitaries for involvement in the drug industry. Peace in Colombia will promote stability throughout the region.

I believe that your proposed testimony will eventually influence the debate over the Colombian aid package and I am encouraged by your persistent efforts to help this beleaguered

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nation. Regrettably, neither I nor the best qualified members of my staff, are available on 9 June, as we were committed before receiving your letter less than a week before the hearing.

Mr. Chairman, I encourage your continued efforts to support the government of Colombia and I appreciate your interest in the region. Should you schedule a similar testimony in the future, I will do my very best to appear before your sub-committee or send the best qualified general officer available.

Very respectfully,



C. E. WILHELM  
General, U. S. Marine Corps  
Commander in Chief, U. S. Southern Command

c.c.:  
Honorable Patsy T. Mink  
Ranking Minority Member

Mr. MICA. But in this letter, which will be part of the record, it says, we estimate our capability will continue to be approximately one-third of what it was in Panama.

Ms. SALAZAR, is that correct?

Ms. SALAZAR. From the perspective of what we are doing right now and the coverage we are providing the source zone, I believe it is correct.

Mr. MICA. I have held a number of closed-door meetings, not to embarrass the administration, on trying to replace these forward operating locations. It is critical that we get them in place.

We do have the now signed, I guess, 10-year agreements with the two. For the record, will you tell us when you estimate they now will be fully operational?

Ms. SALAZAR. Are we talking about the source zone, transit zone, sir?

Mr. MICA. All of our capabilities, source zone and transit zone, that we had when we had Panama fully operational.

Ms. SALAZAR. I am going to try to answer this question. The biggest problem we have right now is trying to increase our coverage in the source zone. If you look at what we are doing in the transit zone and what I said in my oral statement we have, in fact, better coverage now than we had when we were flying out of Howard Air Force Base.

Mr. MICA. One of the problems is this stuff is coming out at unprecedented quantities out of the source zone.

Ms. SALAZAR. You are absolutely correct, sir, and with Customs initiating flights out of Manta this month—and I don't want to give you numbers because then I get quoted and these numbers change.

Mr. MICA. Well, they do, and we have been conducting these hearings and we get sort of a revolving description of when we are going to have full operational capability in place. So you are not prepared—some of the documentation I think you have supplied to us said 2002 is the latest estimate.

Ms. SALAZAR. When we are going to have most of the MILCON construction done, when we are going to be able to have the AWACS flying out of Manta, you are absolutely right, and it is going to take about a year and a half to be able to do most of the upgrades.

Mr. MICA. You did talk about what is going on in Manta. One of the problems with Manta is the condition of that airstrip; is that correct?

Ms. SALAZAR. That's correct.

Mr. MICA. How much is it going to cost now to get it fully operational?

Ms. SALAZAR. It is going to cost—the total—I am going to give you the total cost for the MILCON that we have requested for Manta airport, which is \$61.2 million, and that includes the barracks. That includes—

Mr. MICA. You described aircraft flying out of there, but I understand it is being remodeled and reconstructed to also support U-2 aircraft; is that correct?

Ms. SALAZAR. U-2 aircrafts, I am not aware of that, sir. It would be for AWACS.

Mr. MICA. I am sorry, AWACS?

Ms. SALAZAR. Yes, that's correct.

Mr. MICA. AWACS, and there are no AWACS flights out of there now?

Ms. SALAZAR. Out of Manta, no, sir.

Mr. MICA. All right. The AWACS capability then will not be up and running in that location until 2000?

Ms. SALAZAR. That's correct.

Mr. MICA. Two?

Ms. SALAZAR. 2001. My advisors here tell me that the runway itself will be available in the summer of 2001.

Mr. MICA. One of the problems we have is, of course, the U.S. military doesn't conduct any enforcement operations and is prohibited really from being an enforcement agent under the Constitution and our laws, but what they do is provide surveillance information to the source countries.

This GAO report which was provided to me recently says that United States officials in Peru told us there has been little or no United States airborne intelligence or surveillance of air traffic routes between Peru and Bolivia since 1997. The United States Ambassador to Peru warned in an October 1998, letter to the State Department that the reduction in air support could have a serious impact on the price of coca.

Mr. Ledwith, aren't we seeing an increase in cocaine coming out of this zone?

Mr. LEDWITH. If you take the zone as a whole, yes, sir, we are seeing increased cocaine production.

Mr. MICA. For the first time, I was told by some officials that we are seeing an increase again in Peru. Is that correct?

Mr. LEDWITH. There are reports of an increase beyond the previously achieved low, yes, sir.

Mr. MICA. If I ask, Ms. Salazar, these people in Peru who have been our allies, or Bolivia or Colombia, if they are getting the same level of information and intelligence for surveillance of drug trafficking production, etc., in those areas, what are they going to tell me?

Ms. SALAZAR. Sir, they are probably going to tell you, at least from the air surveillance aspect, that they are going to be receiving increased information. As you know, the ROTHR Puerto Rico came on board, and the importance of the ROTHR, at least for the Department of Defense and the role we play, is that you will have the capability of being able to have—see what is going on in the way of air flights in Peru, Colombia, Northern Brazil.

So in the short term they are probably going to tell you that they are going to have more information in the way of air flights.

Mr. MICA. The ROTHR has been up for how long?

Ms. SALAZAR. It just came—there were still playing with it, but it is formally and it has been in use for about, I would say, 3 weeks now. I was—in fact, I was looking at the site a day and a half ago.

Mr. MICA. It's too early to get any data from its effect, or about its effectiveness?

Ms. SALAZAR. Well, sir, in fact, talking to our experts, they are actually quite pleased with what they are seeing right now; and they have, in fact, started to increase—providing the information to source zone nations.



Mr. MICA. Thank you.

Mrs. Mink.

Mrs. MINK. Thank you very much, Mr. Chairman.

From all of your statements and testimony, I gather that the area coverage, in terms of the surveillance activities by the United States, is greater than it was during the operation of Howard Air Force Base. Is that correct?

Ms. SALAZAR. For the transit zone, the Caribbean zone, yes, it is.

Mrs. MINK. Could you explain exactly what that coverage is with respect to the issue that we are discussing this morning about Panama and the drug trafficking through Panama? To what extent does this transit coverage meet the problems that we are discussing this morning about Panama?

Ms. SALAZAR. OK. Madame, if you allow me to use this map you will probably get a good sense as to each one—of the coverage that will be provided by each one of the FOLs.

Panama would be that yellow spot that you see in the middle of those bigger circles. As you can see, when you look at the FOL, Aruba and Curacao, who is the green star, the amount of coverage we are receiving right now, because where geographically you find Aruba and Curacao is much larger than we were in Panama.

If you look at where the Salvador FOL—which hopefully will be coming on board in the next couple of months and we will start providing flights, we are going to have a larger coverage through what is called the East Pac. And what does that mean for us? As my colleagues from DEA will state, we have seen increased flow of maritime tracks through East Pac; and, in fact, there has been a pretty large interdiction of drugs through the East Pac. And because we are going to be having that—geographically, Salvador is the higher Central American strait—we are going to be able to have more coverage of the East Pac.

If you look down at the blue star, where the Manta FOL is, you can see we have a deeper coverage of the source zone countries. It is easier to get to Peru and southern Colombia, where, you know, 90 percent of the drugs that come to the United States are either produced or cultivated.

If you look at the map, we have—our air platforms will have easier access to get to that area; and, therefore, they will be spending less time in the transit zone. They will be using their time to be on the source zone and being able to surveil from that area.

I don't know if that explanation helps you, but once we have the three DOL fully functioning we will, in fact, have a better coverage, air surveillance coverage, than we had from Howard Air Force Base.

Mrs. MINK. When do you expect that to be fully on board?

Ms. SALAZAR. We expect the missing part of the puzzle right now is the fact that we can't fly AWACS out of Manta.

Mrs. MINK. What is the reason for your inability to fly AWACS out of Manta?

Ms. SALAZAR. The airfield doesn't—can't withstand an AWACS, which is—

Mrs. MINK. Why can't you fix the airfield?

Ms. SALAZAR. We are going to do that. In fact, the MILCON—

Mrs. MINK. Do you have funds to do it?

Ms. SALAZAR. We do not have funds. We requested the MILCON in the Colombia supplemental, and we are hoping that once the Colombia supplemental has been approved we would be able to even cut a contract.

Mrs. MINK. What is the current status of that supplemental?

Ms. SALAZAR. Right now, it is—I think it is ready to go to conference. I think they are trying to attach it to the MILCON bill. My sense is, in regards to the MILCON discussions in the supplemental, there is no—there is no questions about it. It is just a matter of supplemental.

Mrs. MINK. How much are you requesting in that MILCON?

Ms. SALAZAR. We are requesting, for all the FOLs, \$126 million.

Mrs. MINK. That is now stuck in the Senate? As I understand it, we passed it in the House in the emergency supplemental?

Ms. SALAZAR. I believe that's correct.

Mrs. MINK. And currently, as I understand it, that emergency supplemental is not moving, so it has to await passage of the regular appropriations bill before you get funded?

Ms. SALAZAR. My colleague from the State Department was reminding me, there are two parts to it. We have the military part of the supplemental and also the State Department part of it, and our part of the supplemental would be attached to the MILCON. I think they were going to initiate discussions in the next 2 or 3 weeks. I don't—it would be very difficult for me to predict when it—

Mrs. MINK. So assuming that you get the funding in late fall, that would be the timeframe in which you could begin the reconstruction of the airfield, is that correct?

Ms. SALAZAR. That's correct, and that's why, when I stated that the pavement would be ready to have AWACS flying out of Manta, what I was mentioning—what I was referring to was that if we started the—if we got the money sometime in July or August, most of the repairs of that airfield would be done by the summer of the year 2001. At that point, we would be able to fly out of Manta.

Mrs. MINK. Now, with the departure of our military base out of Panama, what is the reality of having a visiting force agreement in place with Panama to substitute for the absence of an actual military base?

Ms. SALAZAR. It is—I think we are talking about two different issues. If we have a visiting force agreement, it is an agreement that we use in most countries to basically protect our people when they are deployed. What does that mean? That there is just basic rules and regulations as to what we can do in a country when we are—when I say we, I am talking about DOD—what DOD personnel can do in any specific country when they do deployment, provide technical assistance and support.

We have been in conversations with the Government of Panama for the last number of months. This agreement has not moved forward and DOD, as you can understand, would be very nervous in increasing our activities and increasing our presence, increasing our training deployments to Panama until we had a signed agreement.

Mrs. MINK. Now, if you had a visiting forces agreement, could you do with that agreement some of the drug surveillance activities that we had done previously at the base?

Ms. SALAZAR. No, that would be a different type of agreement. As you know, with the forward operating locations, when you look at that agreement it basically outlines the type of activities we would perform from any specific airport and the types of assets we would be using. Those are two different types of platforms.

At this point, we haven't approached Panama or had any conversations with Panama to—in regards to having an FOL presence because, as you see from the map, Panama at this point does not help us graphically when you take into consideration that we will probably be initiating flights out of Salvador in the near future.

Mrs. MINK. The news article that the chairman referred to this morning from the Washington Times makes reference to Chinese and Russian-organized crime groups. You, Mr. Ledwith, indicated that the presence of the Chinese groups has increased in Panama. Can you make a comment about the Russian-organized crime?

Mr. LEDWITH. Only in this realm, to say that there has been increasing evidence of a Russian-organized crime influence in that part of the world, also, ma'am.

Mrs. MINK. When you speak of organized crime, this is drug-smuggling activities basically, since that is the focus of our attention in this committee?

Mr. LEDWITH. Our area of interest would, of course, be specifically drug trafficking.

Mr. BEERS. But it is broader than that, ma'am.

Mrs. MINK. Would you like to amplify on that, too?

Mr. BEERS. Russian-organized crime is a poly crime activity. It involves both drugs, which is one of the basic reasons for their interest in that particular area of this hemisphere, but they are also involved in laundering money out of Russia, in the movement of counterfeit goods and counterfeit money and alien smuggling and trafficking in women and children.

All of those are activities that Russian-organized crime has sought to bring to this hemisphere and other locations around the world. They are just spreading out.

Mrs. MINK. Have you reports or other documents that you can make available to this committee with regard to that?

Mr. BEERS. There are intelligence documents, ma'am, and we can ask the intelligence community to make those available.

Mrs. MINK. Thank you. Thank you, Mr. Chairman.

Mr. MICA. Thank you.

I would like to yield to our vice chairman. Could you yield to me for just a second, Mr. Barr?

Mr. BARR. Certainly.

Mr. MICA. I just want to point out for the record, and there will be a written record and if we submit this chart as testimony, part of the testimony, that the circle shown to the subcommittee this morning with a star indicating El Salvador is not in operation at all and that we only have a fraction of the capability coming out of Manta at this time and, again, no AWACS capability, just for the record.

Mr. Barr, thank you.

Mr. BARR. Thank you. If we could have a staff person turn that so that both the witnesses and the Members could see it, I would appreciate it.

Prior to our evacuation of Howard Air Force Base, Ms. Salazar, it is correct, is it not, that we were flying some 2,000 counterdrug flights per year out of Howard?

Ms. SALAZAR. That's correct—I think it was actually more than that. Yes, 2,000 including support missions.

Mr. BARR. OK. And it is true also, is it not, that the cost of operating Howard Air Force Base was approximately \$75 million per year?

Ms. SALAZAR. Approximately.

Mr. BARR. With all of these circles up here, how many counterdrug flights are currently being operated?

Ms. SALAZAR. If you give me—we have that in, I believe, one of my charts, but I will give that—if you give me a couple of minutes, we will try to get that information to you right now.

Mr. BARR. OK. I think the chairman made a very, very good point. I mean, this is a very pretty drawing and the circles are very nice and the stars and so forth, but this is theoretical. I mean, these areas are not being covered currently in the same manner as the larger circle reflected coverage out of Howard Air Force Base.

What these circles reflect, I believe, is the theoretical coverage. You can draw all the circles in the world that you want, but if you don't have planes up in the air they don't really mean anything.

Ms. SALAZAR. Actually, sir, I am sorry. The map is somewhat confusing. That larger circle that you see—

Mr. BARR. I don't find it confusing.

Ms. SALAZAR. No, the larger circle that you see actually reflects the AWACS, the capability of the AWACS.

Mr. BARR. But there are no AWACS.

Ms. SALAZAR. But there will be AWACS flying out of Manta.

Mr. BARR. So this is theoretical at this point.

Ms. SALAZAR. At this point, we don't have AWACS flying out of Manta.

Mr. BARR. Well, we don't have AWACS flying out of any of these areas.

Ms. SALAZAR. No, sir. We do actually have AWACS flying out of Curacao.

Mr. BARR. How many are there down in Curacao today?

Ms. SALAZAR. Right now, today, I can't give you details.

Mr. BARR. It is my information there are none down there today.

Ms. SALAZAR. There may not be one there today, sir, but we have had the AWACS flying in the AOR; and, specifically, they have been flying out of Curacao.

Mr. BARR. There are no AWACS that are permanently stationed in any of these locations; that's correct, isn't it?

Ms. SALAZAR. Nor were there in Panama. The AWACS normally—

Mr. BARR. There are none?

Ms. SALAZAR. No, but, sir, even when we had Howard Air Force Base the AWACS were never permanently stationed out of Panama.

Mr. SOUDER. They were prior to them being transferred to Kosovo, and so forth.

Ms. SALAZAR. No, no.

Mr. BARR. There are no AWACS down here on a regular basis.

Ms. SALAZAR. I would disagree, sir. We do have AWACS coverage flying out of Curacao.

Mr. BARR. From time to time.

Ms. SALAZAR. We—as much as we had—when you have only one AWACS—I mean, I think the issue here is we only have one AWACS and at different points.

Mr. BARR. We only have one AWACS in our defense inventory?

Ms. SALAZAR. No, sir, we only have one AWACS that has been assigned to this.

Mr. BARR. Therein lies the problem. A policy decision has been made by President Clinton, or Secretary Cohen, I don't know which, not to make the AWACS available. We have AWACS.

Ms. SALAZAR. We do have.

Mr. BARR. They are just not assigned here.

Ms. SALAZAR. As you know, sir, throughout the years there has been a reduction in a number of these assets, and a decision was made by the Secretary that there were other missions around the world that required—

Mr. BARR. We are well aware of these other so-called missions around the world and how they are eating up our resources. That's why we don't have them here.

Would any of you disagree with the estimates that I have seen that the FARC in Colombia strength—what is the FARC strength as far as you all know?

Mr. BEERS. Sir, my understanding is that it is between 10,000 and 15,000 armed individuals.

Mr. BARR. OK. Would any of you all have any reason to doubt those figures?

Mr. LEDWITH. No, sir.

Mr. BARR. OK. By any measure, a fairly substantial presence.

Are you all familiar, I presume, to one extent or another, with Panama law No. 5, organic law No. 5? Mr. Beers, I certainly know you are very familiar with it.

Mr. BEERS. You are going to have to remind me what it says, sir.

Mr. BARR. Well, OK. Panama law No. 5 has been written about extensively, both publicly as well as in United States Government documents, because it is the framework that specifically provides the powers for Hutchison Whampoa to control assignment of pilots for ships transiting the Canal, to hire pilots for ships transiting the Canal; to determine the order of ships going through the Canal.

None of you all are familiar with Panama law, organic law No. 5?

Mr. BEERS. No, sir.

Mr. LEDWITH. No, sir, not particularly so.

Mr. BARR. Mr. Chairman, I am speechless.

Mr. MICA. We want to make sure that's included in the record, that you are speechless.

Mr. BARR. I guess this is one reason why we see so little concern on the part of the administration over Communist China's presence in Panama. The administration apparently is not even familiar

with the basic law of Panama that provides very significant powers to Hutchison Whampoa that provide for the hiring, the assignment of pilots for ships transiting the Canal, the order of line for ships going into and out of the Canal.

Are you all familiar with the recent purchase by a Communist Chinese bank of Marine Midland Bank, which is one of the major banking institutions in Panama?

Mr. BEERS. Simply that it happened, sir.

Mr. BARR. Was this significant enough to hit the radar screen of the U.S. Government, the administration?

Mr. BEERS. Sir, we are concerned about financial transactions in Panama as a general issue because as several of us have indicated, the issue of money laundering is a serious issue in Panama.

Mr. BARR. How about is there any specific concern with regard to increased Communist Chinese presence and power in banking and other financial institutions located in Panama?

Mr. BEERS. Sir, as a general matter, that's, of course, something that we pay attention to, look at—

Mr. BARR. Good.

Mr. BEERS [continuing]. And report upon.

Mr. BARR. I appreciate that.

Is this of concern to other agencies of the government, the increased Communist Chinese financial presence in Panama through such things as the purchase of Marine Midland Bank? Is this of concern to the Department of Defense?

Ms. SALAZAR. Sir, as you know, I am the Deputy Assistant Secretary of Defense for Drug Enforcement so I—although—

Mr. BARR. Does that include money laundering?

Ms. SALAZAR. Not necessarily. As you know, my role is detection—our role is detection and monitoring and providing support through our DOD forces. However, when we do get requests for training, we provide training and intelligence. But, generally, we don't participate in money laundering support—into money laundering support.

Mr. BARR. Mr. Ledwith, I know that you all's agency is very concerned about and does very, very good work on attacking money laundering. Are you concerned about the increased Communist Chinese presence in financial institutions and power in Panama?

Mr. LEDWITH. Yes, sir, we are working in cooperation with our colleagues in the Customs Service and the FBI we watch that very closely.

Mr. BARR. You might want to share that concern with some other agencies of our government.

Mr. LEDWITH. Yes, sir.

Mr. BARR. I might also state for the record, Mr. Chairman, and encourage representatives from our government, too, look carefully at Panama organic law No. 5 because it also provides contract rights transfer authority for Hutchison Whampoa. In other words, they can take the contract rights that they have through this very, very long-term contract that they signed with the Panamanian Government and transfer them to a third party, without restriction; and that would include transferring of their rights to other components of the Communist Chinese Government, other corpora-

tions controlled by different components of the Communist Chinese hierarchy, and so on and so forth.

I have other areas, Mr. Chairman, but since there are other Members will we have another round of questioning?

Mr. MICA. If time permits.

I will recognize Mr. Ose now.

Mr. BARR. Thank you.

Mr. OSE. Thank you, Mr. Chairman.

Mr. Ledwith, I am interested in a particular area and that is from your base of knowledge, how much money do we spend addressing the issues of drug enforcement in this area? I mean, from your Department's—

Mr. LEDWITH. From DEA's perspective, sir?

Mr. OSE. Yes.

Mr. LEDWITH. Limited to Panama or the region?

Mr. OSE. The region.

Mr. LEDWITH. Millions of dollars.

Mr. OSE. Tens of millions or \$5 million?

Mr. LEDWITH. We would probably say tens of millions.

Mr. OSE. OK. Ms. Salazar, the same question, generally speaking.

Ms. SALAZAR. In this area I can give you some specific numbers, and then we could come back with—I could give you some general numbers and then come back in general.

Mr. OSE. Sure.

Ms. SALAZAR. This year we spent, in the whole FOL process, which would include what we have spent in Manta and Aruba and Curacao, I would say approximately \$34 million. Now, you also must add on, if we are talking about that—the region in general, we have a very large and important program in Colombia that goes to \$60 million, \$70 million, and we also have important programs in Peru. So we are talking—

Mr. OSE. We are on the area of nine figures somewhere as it relates to your particular area?

Ms. SALAZAR. Probably.

Mr. OSE. Mr. Beers.

Mr. BEERS. Likewise. Hundreds of millions of dollars in the region.

Mr. OSE. The reason I ask that question is, having spent all of this money, do we know who the individuals are behind the exportation of drugs to this country, the individuals? Not the cartel names, not the cities from which it comes but the individuals?

Mr. LEDWITH. Yes, sir, we know many of them.

Mr. OSE. Say again?

Mr. LEDWITH. Yes, sir, I would say that we do know many of them, yes, sir.

Mr. OSE. I would like to visit with you later about perhaps creating a list of such individuals.

Mr. LEDWITH. Yes, sir, I would be happy to do that.

Mr. OSE. I always find that shining a light on specific people, kind of helping bring attention to their activities, is helpful.

I also want to go back to the question of the operating bases. As I understand it, Ms. Salazar, as it relates to Howard Air Force

Base, we were running about 2,000 flights a year out of there; and it was costing us around \$75 million a year to operate that effort.

Ms. SALAZAR. I stand to be corrected. I was given the numbers that Congressman Barr had asked for and, in fact, when we were flying—as you know, Howard had a number of different types of flights that took place. Some of them were counter drugs. Some of them were support for the hemisphere. When you look at the counterdrug flights, we were flying approximately 550—520 detection and monitoring missions per year.

This year, we have flown, up until now, 600 detection and monitoring flights. So, in fact, the number of flights has increased.

Mr. OSE. Is the \$75 million number correct in terms of the general operating expenses?

Ms. SALAZAR. For Howard, yes, approximately.

Mr. OSE. For Howard?

Now we have got a number for these new forward operating locations in terms of capital expenditures. I think the number was \$126 million is the one you cited, investment in these airports.

Ms. SALAZAR. I am sorry, sir. What I am talking about, yes, it is a capital investment in the next 2 years of being able to improve the capabilities of the FOLs, which would include—

Mr. OSE. Would that be all three of them?

Ms. SALAZAR. That would include all three of them, 126—

Mr. OSE. This would be, for instance, airports like National Airport or Dulles or Sacramento International? I mean, that's the comparable facility, if you will? You have private carriers coming in. It is not like Howard Air Base in that it is strictly a military facility?

Ms. SALAZAR. Yes. Manta, although it is an Air Force facility, it also has international flights flying out of it. So it is also an international airport, yes.

Mr. OSE. If I understand correctly, we have \$126 million worth of capital investment going into these three forward operating bases. Do we have any feel for what the annual operating costs for these three forward operating locations would be?

Ms. SALAZAR. OK. I am going to stand to be corrected one more time. It is \$136 million when you include Salvador.

Mr. OSE. OK. So do we have a number for the estimated annual operating expenses for the three forward operating locations?

Ms. SALAZAR. We are struggling with those numbers right now, sir, in part because—there are a number of reasons. We initially had anticipated \$19 million to \$18 million is the numbers that General Wilhelm had provided us, but it looks like those numbers are going to increase, and they are increasing based on the fact that now we have not accounted for Salvador at the time we were providing those numbers, and there are costs that we couldn't anticipate when we were trying to predict as to what were the needs in these different airports.

Mr. OSE. If you had to estimate presently, to the best of your knowledge, you are probably talking \$100 million a year for operating expenses out of the three forward operating locations?

Ms. SALAZAR. \$100 million? No. I would say 23—between 23 and—23 would be the lower end right now, what we are looking at. It could go higher than that, \$23 million.



Mr. OSE. How do you reconcile the \$75 million number at Howard for 520 detection excursions with the \$23 million at the three bases on an annual basis?

Ms. SALAZAR. The \$23 million—well, we—maybe you could repeat the question?

Mr. OSE. I asked earlier about what were the annual operating costs for running the drug interdiction efforts at Howard.

Ms. SALAZAR. Right.

Mr. OSE. You told me \$75 million.

Ms. SALAZAR. That's correct.

Mr. OSE. That's generating about 520 excursions, if you will, for detection purposes and the like. Now I am interested in what the annual operating costs are estimated to be for the three forward operating locations that will replace Howard, and you have told me the best estimate you have today is \$23 million a year.

Now, the question I have is, if Howard was generating 520 detection missions for \$75 million a year, how is it that we are able, at least year to date, just generically, to generate 600 detection missions from the three bases at \$23 million a year? There just seems to be a logical disconnection on a relative basis, and I am trying to reconcile that.

Ms. SALAZAR. There is a couple—there are a couple of reasons. On the one hand, when we were at Howard, we had a full base facility. When you look at how we are functioning out of Aruba, Curacao, Manta and Salvador, they are more on an expeditionary basis, and they are not permanently there. So these are—the cost in many ways would be—probably are going to be less because our footprint is less.

Mr. OSE. Is the \$75 million number that you previously gave me the total operating expense at Howard?

Ms. SALAZAR. Total operating expense.

Mr. OSE. So not only the drug interdiction effort but the military effort?

Ms. SALAZAR. Correct. Correct.

Mr. OSE. Let me go on to my next question then. I may want to come back to that, if I have time.

Mr. Barr was very effective as it relates to the AWACS planes not being in the region, and I see on your very clear picture the circles for the P-3s. Now do we have P-3s in the area right now?

Ms. SALAZAR. Yes, we do, sir. We have P-3s flying out of Manta and Aruba.

Mr. OSE. All right. How much in capital improvements do we have to make to continue the operation of the P-3s in the area?

Ms. SALAZAR. Not much, because we are doing it already.

Mr. OSE. OK. So I guess, Mr. Chairman, that begs the question why would we spend \$126 million to improve an airport for an AWACS that's not there if we have got P-3s that are operating there effectively now?

With that, I would yield back.

Mr. MICA. Thank you.

Mr. Souder.

Mr. SOUDER. I have a couple of different lines of questions.

Mr. Ledwith—

Mr. MICA. Mr. Souder, you are not picking up for some reason.

Mr. SOUDER. I am discouraged.

Mr. Ledwith, on the question of the Communist Chinese, have you seen any involvement in money laundering related to narcotics from many of their institutions?

Mr. LEDWITH. Sir, we have no definitive information that I could put forward at this time, no, sir.

Mr. SOUDER. But clearly that means you are closely monitoring because there is possible doubt?

Mr. LEDWITH. Because of the scope and complexity of money laundering in general, and particularly in Panama, yes, sir, we are watching it closely.

Mr. SOUDER. What we have seen in Panama predominantly is Colombian heroin coming north. Have you seen any sign that they also could get Asian heroin moving the other direction with their presence in Central America?

Mr. LEDWITH. Are you referring to Asian heroin coming to the United States from Panama?

Mr. SOUDER. The increasing presence of China.

Mr. LEDWITH. We have not seen any indications of that yet.

Mr. SOUDER. So to the degree you are watching it, you are mostly watching to see if they become involved in South American events?

Mr. LEDWITH. Yes, sir. There are other issues that we are also closely monitoring. China, for instance, is a source of much of the ephedrine in the world that is utilized in making methamphetamine, which is a particular product available—

Mr. BEERS. From a broader perspective, sir, alien-smuggling is an issue, the flow out of China, and Panama is an intermediate destination.

Mr. SOUDER. But the DEA—zeroing in on narcotics, I understand that the ephedrine would be coming from Asia. You say they are involved in that. Any of you who want to answer?

Mr. LEDWITH. China is one of the major producers and exporters of ephedrine, and clearly we have our eye on that particular element also, yes, sir.

Mr. SOUDER. So part of the reason for the investment, in fact, in Central America could become to try to be involved in that precursor business in South Central America, theoretically?

Mr. LEDWITH. I cannot speak to what their ideas are, but certainly it is something that we are interested in and closely monitoring.

Mr. SOUDER. That is certainly not an illogical jump? In other words, it is enough that you at least would want to watch it, because if they are one of the largest providers of the precursors, this is the largest provider of narcotics, it would be totally unwise not to be watching an increasing presence in that zone if there is going to be some future linkup?

Mr. LEDWITH. You are absolutely correct, sir, and that's why we are watching it.

Mr. SOUDER. OK. Thank you. I can't have Mr. Beers at a hearing and not talk about Blackhawks for a second.

My favorite staffer on Colombia, John Mackey, was just showing me some wonderful pictures of actual Blackhawks in Colombia with the galvin 18 guns on one side, and I hope we can continue to work to get the guns on the other side as well since it looks like

the first five helicopters that were damaged were damaged on the side without the more powerful guns.

Which leads me to one of my frustrations that I am discouraged on. I know all of you from multiple of these things. I think the biggest problem we are fighting right now in the anti-narcotics effort is that there is a movement growing on both sides, right and left, that somehow this is an unwinnable war and that we are all fighting hard to try, and disagreeing at times as to how to do it, but we are in a real battle here, and this is part of my frustration on these dates questions.

My generation is obsessed with Vietnam, that we are always behind and that we can argue whose fault it was or how we got into this in the Panama Canal, but as a business guy I look at it as somehow a critical path method wasn't done here to realize the date for having a final decision in Panama, was too late for us to be able to, you know, replace the resources fast enough. That I happen to believe, and I think many others are very concerned, that there has been a stockpiling going on while we are in transition; and that while we are trying to figure out how to get our AWACS there, I don't disagree theoretically.

This may not, in the end, give us better coverage in the antidrug effort. There are still other issues in the zone such as, say, the Canal that happens to be very important in international trade. That alone may be enough of an argument to have an FOL in Panama or some sort of a function there that may not be related to narcotics at all. It is a big trade question, I mean, nominally related to narcotics.

I heard in Ms. Salazar's testimony, that's what we should have been working on in mid-1998, if it takes us a year and a half, because there is plenty of blame to go around. I personally believe that Plan Colombia and these Blackhawks should have been requested from us 4 years ago. I was fighting for over six Blackhawks, and now we need 20's and 40's and 60's down there.

But the truth is, Congress is moving at a snail's pace right now, too, and now that the administration has come forth, now we are dinking around with whether we need the right helicopters, when this money is going to come through, and then by the time we get it there we are going to need more.

Furthermore, I read in Mr. Beers' written testimony about an incursion into the Darien by the paramilitary's six men, not much, but this week an incursion of 70 armed rebels last week. If we, in fact, do put a billion and a half into Colombia and that is mostly oriented toward a push south-southwest, why isn't it going to pour right across that line? And how many police do they have to move to the border there?

Mr. BEERS. A very limited number, sir.

Mr. SOUDER. And what is our strategy? Ms. Salazar said, I believe the exact quote was, we are closely monitoring the situation and stand ready to assist Panama.

What does that mean, given the fact that if we do pass this bill, take a year and a half probably to get all the stuff down there or a year, we get it there, we start hammering them, what does this mean? Are we going to wait until they are already in Panama and then have to have another billion and a half supplemental?

Ms. SALAZAR. And perhaps I did not—I didn't fully detail with you all the number of ongoing engagements SOUTHCOM has with Panama at this point, but it is an engagement that is somewhat limited to the fact that we won't be able to increase our capability of deploying people down there and increase our training and technical assistance to the Panamanians until we have this agreement that we talked about earlier. But we do have—we do have an ongoing engagement.

SOUTHCOM has been working very closely with the Panamanians in developing their national security strategy. They also have been helping and working with the Panamanians so that they develop a nationwide communication system for their forces. So we do have something of—I am not going to say a presence but of an engagement with Panama.

And what I said is exactly right. I mean, we continue to monitor this situation very closely and try to cooperate and work with the Panamanians in so much as the Panamanians want it.

Mr. SOUDER. I have been involved in this subcommittee from the time we took over Congress and have been down every year to South America and even got lost in Santiago one night, that one of the things that is frustrating here is that we wait, we get the information, once we get the information we go through the process, and we get just enough to now be just slightly behind. And something like this is the most tragic thing we are battling in the streets and in our families, and it is not going down, it is getting exacerbated—unless we can get ahead of the curve and try to anticipate what is going to happen next, rather than reacting to what has happened, the charges against us are going to continue to be true and undermine our support base to do anything about it.

Mr. BEERS. Thank you, sir. That is the intention of our effort, to work with you on Plan Colombia to get ahead of the curve with sufficient resources, to be able to have a real opportunity to be effective, and we welcome your support and appreciate it.

Ms. SALAZAR. And the Department of Defense also shares your concern and somewhat your frustration. We did not anticipate that we were going to have to leave Panama, so we found ourself almost, from 1 day to another, in the situation where we had to start negotiating with a number of countries agreements so we could land, finding the resources so we could be able to deploy assets that had not been deployed to these areas and basically finding ourselves seeking MILCON construction so we could be able to kind of replace and enhance our capabilities that we had flying from Panama. So, in many ways, the Department of Defense shares your concerns and your frustrations.

Mr. SOUDER. Anything you want to say, Mr. Ledwith?

Mr. LEDWITH. Yes, sir. The Drug Enforcement Administration looks forward to the passage of Plan Colombia, also. It is something that is very, very needed, very timely; and I would like to see it go forward.

Mr. SOUDER. Are you concerned that, if we pass it, it is just going to overrun Panama and that we aren't prepared to fight the Panama situation?

Mr. LEDWITH. We are concerned from a regional perspective about what the displacement effect will be of all of those resources

in Colombia. And, of course, Plan Colombia also has a regional focus; and that is something we are watching very closely.

The situation in Ecuador, the situation in Venezuela, the situation in Panama, these are all areas that can be adversely impacted by a displacement of either drug traffickers or guerrillas.

Mr. BEERS. But at this point in time, sir, in all fairness to your point, the cultivation—

Mr. SOUDER. Right.

Mr. BEERS [continuing]. Which is the principal focus of Plan Colombia wouldn't be expected to move in the direction of Panama. It is too small, and it is in the wrong geographic area.

Mr. SOUDER. But that FARC is predominantly a protection group. What they could do is much like what happened in Vietnam. They go across to Cambodia, harbor themselves over there for awhile, we destroy one season of the crops, they come back across. Our guys can't control that much land with the amount of money we are giving them. That's only a fraction of the cost.

Mr. BEERS. Remember, it is not seasonal, sir. The cocaine is not seasonal.

Mr. SOUDER. Depending on what we use to destroy it.

Mr. BEERS. No. It is a perennial, not an annual. It is not like the opium poppy. You grow a plant, and you continue to harvest it year after year after year for about 15 to 18 years. So they have a start-up requirement that's 18 to 36 months to get started.

Mr. SOUDER. That's assuming, of course, we have eradicated everything, that we got control of the whole zone, which \$1.9 billion is not going to do.

Mr. BEERS. Yes.

Mr. SOUDER. But it is an important start. For example, we are dealing with a stagnant bill. We need to continually look at that for the Panama question, because I heard this week and last week are new things that we hadn't seen before. We suspect it might happen, but that clearly we have a change in the dynamics of Peru. We don't know what the opposition is going to do. Are they going to align with that? Are there going to be additional pressures there? As we look at our package, we have to understand we have to stay ahead of the curve, not just be reactive. Otherwise, we are just throwing money away, wasting money.

Mr. MICA. Thank you, Mr. Souder.

Let me see—Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much.

First of all, let me just restate for the record that I do agree with Mrs. Mink about America's drug program cannot be just focused on interdiction. We have got to start trying to affect demand, which also includes treatment. And until we do get demand under control, we can't expect only law enforcement to do the job. So first, before I go into that, I want to identify with Mrs. Mink's statement.

Let me also say that, in terms of the other end of this battle, I have been very deeply disappointed in the administration, and especially in what the administration has been doing in relationship to Panama, which I consider to be a frontline country in this whole situation.

If we forget Panama, we do so at our own peril. Having looked at what has been going on in Panama, I would say that the admin-

istration has—at best—been incompetent. And trying to engage the Panamanians in a way that would result in policies and in a reality that is beneficial to the United States and protecting our interests. Not only drug interests, but interests in terms of potential enemies like Communist China.

First and foremost, let me ask you, the baseline that you are using today, Ms. Salazar, you are suggesting that there are actually more flights now than when we had Howard Air Force Base.

Ms. SALAZAR. That's correct.

Mr. ROHRABACHER. When we had Howard Air Force Base, as of what year are you talking about? Are you talking about as of 2 years ago? What about 10 years ago? Were there more flights 10 years ago before the Clinton administration?

Ms. SALAZAR. I could get you those numbers.

I guess what I would have to clarify, if you are talking about counterdrug flights or other types of support activities that the Department of Defense provided.

Mr. ROHRABACHER. If you could give me those numbers, would it surprise you to know that there were dramatically more flights 10 years ago?

Ms. SALAZAR. Ten years ago? I don't think there would have been many—I believe—you know, I couldn't speculate, because I am trying to understand the numbers and the way of the counterdrug flights and the numbers that were increased.

Mr. ROHRABACHER. I have a chart in front of me here that suggests that at least the number of hours that were present in the flights has gone from over 8,000—from about 8,000 to under 5,000 hours.

Mr. BEERS. Which is your base year, sir?

Mr. ROHRABACHER. This is—the baseline is 1992, before the Clinton administration.

Ms. SALAZAR. OK.

Mr. ROHRABACHER. It appears here, it is under 5,000—or around 5,000, I guess, but it was over 8,000. So you see a reduction of at least maybe a third of the number of hours.

Ms. SALAZAR. Are you talking about a 1992 baseline, sir?

Mr. ROHRABACHER. Yes.

Ms. SALAZAR. I don't know if you are aware, but there was a congressional mandate to cut approximately \$300 million of the CTA program, which I supervise, and a lot of that cut was reflected in flight time and steaming hours. So the numbers are absolutely correct.

Mr. ROHRABACHER. OK. But the mandate wasn't that you cut this; it was to cut something, right?

Ms. SALAZAR. No, no. It was actually when you look at the—

Mr. ROHRABACHER. It was to cut the number of hours—the Congress mandated that we cut the number of hours for drug-related flights?

Oh, that was when the Republicans came in, I guess.

Mr. OSE. Mr. Rohrabacher, I am curious. May I interject something?

Mr. ROHRABACHER. Yes.

Mr. OSE. The mandate on the \$300 million, was that passed by a Congress—what year was that passed—

Mr. ROHRABACHER. Well, is it the 1992 Congress that you are talking about mandated this?

Ms. SALAZAR. It was for the 1993 FYI; yes, FYI.

Mr. ROHRABACHER. So that was—

Mr. OSE. That would have been the Congress elected in 1992 then?

Mr. ROHRABACHER. Right.

Mr. OSE. Thank you.

Mr. ROHRABACHER. I seem to remember there was a shift in control of Congress somewhere around there.

Ms. SALAZAR. But, sir, beyond who was—

Mr. BEERS. There was a Congress elected in 1990.

Mr. ROHRABACHER. So you are saying the Democrat-controlled Congress mandated that you shift—dramatically decrease the number of drug control flights in this area; is that right?

Ms. SALAZAR. There was a concern expressed by a GAO report written in 1992 that the Department of Defense was spending way too much money in detection and monitoring, in light of the capability of our law enforcement to perform end games and the capability of other countries to perform end games.

Mr. ROHRABACHER. So there is an excuse for them to want to dramatically decrease it. So you are not using that year as a baseline. You are using some year after these dramatic cuts.

Ms. SALAZAR. Yes, 1998. The figure I gave you, 520.

Mr. ROHRABACHER. 1998 obviously; what were we in the process of in 1998? We were in the process of moving out of Panama in 1998, were we not?

Ms. SALAZAR. No, sir, we were not. We left Panama in 1999.

Mr. ROHRABACHER. Right. We just left in 1 day?

Ms. SALAZAR. No, the decision to leave Panama, at least when we were advised that we would be—when the decision was formally made to leave Panama was in, I believe, October 1998, Randy? Yes.

Mr. ROHRABACHER. Let me just say there were negotiations. Howard Air Force Base was closed in June 1999, of course, which means I don't think they just decided the day before they shut the door. It seems to me there is probably an evolution of—especially considering the terrific job that the administration did in negotiating to try to keep Howard Air Force Base, there is probably an understanding that Howard was going to actually shut its doors. So the baseline you are using is a baseline when Howard was in transition to be closed.

Ms. SALAZAR. I would politely disagree, because the ratcheting down of flights began, I believe, in January or February 1999.

Mr. ROHRABACHER. You are trying to tell us—the essence of your testimony today is that we really didn't need Howard after all.

Ms. SALAZAR. No, sir.

Mr. ROHRABACHER. Well, that is what you are saying. You have all these circles here and saying look at the coverage we are getting without Howard. You are trying to say, oh it was OK that the administration—

Mrs. MINK. Will the gentleman yield? I don't feel that is an appropriate interpretation. They are left with a situation where they have to come up with an alternative, and this is the alternative plan which they feel is adequate in meeting the coverage that How-

ard Air Force Base previously provided, but not because they didn't need Howard.

Mr. ROHRBACHER. OK, that is very fair, and one could conclude that only if one believes that the administration was negotiating seriously to keep Howard. And what I am trying to say or suggest, and what my observation is, is that there was no serious negotiation, just like the administration hasn't done anything to keep this Chinese Communist-dominated company from controlling both ends of the Canal. The administration also was not negotiating seriously to try to keep an American military presence in Panama.

There is an intent that is going on here that is not on the surface, is what I am saying, and I am trying to get to that. It seems to me by suggesting that, well, we really haven't had any problem because of this because now we have the coverage anyway, takes away from an understanding of just how drastic a change has taken place in Panama and what that has to do with our national security and our efforts to combat drug shipments.

Ms. SALAZAR. If I could make two comments, at least from DOD's perspective and as a person who had to deal with the fact that we were leaving Panama, we pretty much were under the impression, and we were behaving as a Department, that we were going to be in Panama until September 1998. And the reason why I tell you this is that from at least our perspective, there was a sense or there was a hope that we would be able to stay.

With that said, if I have sounded Pollyannaish and have given you the sense that there aren't challenges in our program, I apologize; there are huge challenges. And one of the biggest challenges we have right now is being able to increase our capability of doing surveillance over the source zone which is the area, as you know, we need to place most of our resources, because that is the area where most of the drugs that come to the United States come from.

So I am not trying to be Pollyannaish, but kind of paraphrasing what Congresswoman Mink was saying, we woke up, we had the situation, and I believe within a year the Department of Defense has been able to react.

Mr. ROHRBACHER. You try to make the best out of a bad situation, and I guess what I am suggesting is this administration created the bad situation. This administration, through either incompetence or whatever their motive was, has overseen a total withdrawal of the United States from Panama. There are evil forces in this world, forces that are enemies of the United States, forces that don't like democracy, whether they are gangsters or drug lords or Communist Chinese who may hate us for whatever reason, that would like to control and dominate the strategic country of Panama. The Panamanian people know that. They wanted us to stay. Polls indicate that 80 percent of them wanted us to reach an agreement; yet this administration wasn't able to do so.

That is the reason why I am expressing, anyway, here to express doubts about what the administration has done and to applaud the chairman for focusing on this, because it affects our drug efforts, but it affects our national security in so many ways.

Mr. MICA. We appreciate the gentleman joining the panel. I do want to give our ranking member an opportunity for another question. I think Mr. Barr had a question, if we could proceed.



Mrs. MINK. Our visitor on the committee has riled my adrenaline, because I don't think that his conclusions are really fair to the administration. It is true that the negotiations failed, but as the explanations have been given to this committee, formally and informally, I believe that the negotiations were being conducted very aggressively and seriously. It was the interposition of political circumstances within Panama, as I understand, the elections and so forth, that caused the failure of the negotiations to finalize an agreement where we could stay in some form or another; perhaps not the full base, but at least for our drug surveillance requirements.

I have said in my previous comments on this that I was very disappointed that the negotiations failed, and I would have hoped that they could have been successful. But to say that the administration itself caused this to happen, I think is a complete misanalysis of the circumstances that we find ourselves in.

Having said that, I join the chairman of this committee in urging the administration now to do everything they can to provide the United States with the equal resources that we lost when we lost Panama. That is the sentiment that both the chairman and I share, that we have to develop an aggressive policy that will give the United States the same kind of capacity to obtain intelligence on the drug movement and to do the interdiction that is required in order to curtail traffic in our own country.

We can't interpose our wishes upon an independent country. We don't own them. We can't dictate policies to an independent country. Some on this committee would probably wish that we could, but we can't. The reality is we can't. Therefore, we have to come up with a substitute policy.

If the majority feels as strongly as they have indicated today, they should get to work on the other side of the Hill and make that money available to the administration so that they can do the repairs and put the AWACS operations into full effect so we can have the surveillance of source as well as transit.

This is an area of enormous concern to the minority, and we join the majority in expressing them. We may have different emphasis on where we would like to see our efforts. Many of us on our side are so frustrated that we can't get enough funding and attention on the treatment end, so we continue to go to the floor and try to urge that point of view. I believe it probably will be done again shortly.

I think this it is an area which we should minimize, this country-bashing. I don't see any point in bashing Panama at this point and its political leadership, and this leads me to my final question.

We talk about all this name calling about the local Panamanian law enforcement efforts. To what extent are we able to work with the law enforcement agencies that exist there? What are we doing to help them meet the challenge and are we meeting with any success at all? Anybody on the panel?

Mr. LEDWITH. I would be happy to respond to that, Madam Congresswoman. We have a very good working relationship with the Panamanian authorities. We have eight agents stationed in Panama. Due to congressional increases, we hope to increase that in

the upcoming year to maybe 10 agents. We have a good, strong, working relationship with them.

Yes, there are problems, there are a lack of resources, and they are almost overwhelmed with the scope of the problem. But, yes, we are able to work with them, and we will continue to do so.

Mrs. MINK. Is there any indication that they resent or reject our efforts to support and supplement their own internal law enforcement activities with respect to the drug issue?

Mr. LEDWITH. As to drug interdiction, no. As to money laundering, it is a somewhat different subject.

Mrs. MINK. So in that area they do resist our interventions?

Mr. BEERS. It isn't so much that they resist them. They have taken our assistance and our training. The issue is that they haven't completely created the legal framework that makes it effective.

As Mr. Ledwith said earlier, the only predicate at this point in time for their money laundering legislation is drug trafficking. It would be a much more effective regime if the implementation or the law were broader based so we could do that. But we have been training their financial intelligence unit, we have been working with them. They have not made the prosecutions off of this unit yet that we would like to see them make, and that is something we have talked with them as recently as this week about. So it is an ongoing issue of concern.

Mrs. MINK. What about the free trade zone? What efforts are we making there to meet the problems that all of you have cited with reference to the free trade zone?

Mr. LEDWITH. Well, if I may, I would like to echo my colleagues' remarks. I wouldn't characterize it resisting our efforts. I would categorize it as a legal entanglement. The Colon Free Zone is of such paramount economic interest to Colombia and is a source of such revenue, changes in the laws of Panama that would enable more effective investigations and prosecutions of money laundering are economically difficult. There are a variety of interests at play.

Mrs. MINK. Well, that is no different now than it was before we lost the air base. I mean, that is not a new development, is it?

Mr. LEDWITH. I think you would be accurate in representing that it is not a new development. The Colon Free Zone has been there for some time.

Mrs. MINK. No, I am talking about the money laundering.

Mr. BEERS. Right. No, it has been an ongoing concern. I have been involved in this situation for 10 years.

Mr. LEDWITH. It has been a concern for many years.

Mrs. MINK. So it is sort of the situation and frustrations that we express when we discuss the internal difficulties we have with Mexico.

Mr. LEDWITH. Anytime—

Mrs. MINK. There is a very close correlation in what we would like to see happen and the difficulties because of their internal legal system, their laws and so forth.

Mr. BEERS. As well as economic interests, yes, ma'am.

Mrs. MINK. Thank you, Mr. Chairman.

Mr. MICA. Mr. Ledwith, you said you hadn't seen this report that says that there are more serious problems arising from corruption of law enforcement and other agencies within Panama.

Mr. LEDWITH. I now have a copy of it, sir. I haven't had a chance to read it yet.

Mr. BEERS. Sir, I skimmed it, and I have tried to understand how one could draw from that to say that this is something that has happened, as Mrs. Mink has said, something that has happened in the very recent past. It seems to me to describe a situation that has been there for as long as I have looked at Panama as an area of concern.

Mr. MICA. I will look at the report. I have not seen a copy of it. We will get back with you after we have reviewed that and see how dramatically the situation has changed.

Mr. Barr.

Mr. BARR. Thank you, Mr. Chairman.

Going back to our map over here, Ms. Salazar, given that there had been some 2,000 counterdrug flights per year, what mix of flights would you have to have out of these three potential locations in order to reach that level of 2,000 counterdrug flights per year?

Ms. SALAZAR. I misstated that number. There were 2,000 flights leaving Panama at the time, but of those 2,000 flights, at least in the year, base year that I am talking about, 1998, there was 520. As of right now, we have 600 flights that have been flying out of the FOLs. Most of those flights—

Mr. BARR. You are confusing me. The figure of 2,000 counterdrug flights is yours.

Ms. SALAZAR. Sir, I am sorry. I misstated. It wasn't 2,000 counterdrug flights.

Mr. BARR. I don't mean today. This has been your consistent position. You stated in sworn testimony on May 4, 1999, before this committee, you used that figure as well. Forgive me, but I suspect what we are hearing is a typical Clintonism. In an effort to make us believe through smoke and mirrors that there is really even more drug flights going on now than there were before, you are trying to now change the definition of what a counterdrug flight is.

I don't buy that. I mean, you used, have used for over a year now, the figure of 2,000 counterdrug flights per year. That is a quote from your sworn testimony. And now you are telling me, oh, there really weren't 2,000 counterdrug flights, there were only 500, and therefore all of a sudden, hey, it is magic, there is more now than there were before.

Ms. SALAZAR. Sir, if my testimony says 2,000 counterdrug flights, I apologize. That number is wrong. And I don't question you, it may be in my testimony. I should not have said that.

Mr. BARR. Can somebody take these documents to the witness, please?

This was your sworn testimony in May 1999. We rely on you-all's testimony. When you all come up here and take an oath and swear to give us correct information, we would like to be able to rely on it, and our staff relies on it. And when they prepare information for us, whether it is going on a foreign CODEL, such as the ones that Mr. Souder mentioned he is going on, whether it is for our work up here to perform our job on behalf of the American people

and to legislate and to appropriate and to conduct oversight, we have I think a right to rely on sworn testimony from administration witnesses.

Now, when an administration witness comes up here, as you did in May 1999, and gives us, both in written testimony and in sworn oral testimony, that there were over 2,000 counterdrug flights per year originating from Howard Air Force Base, I am inclined to believe you. Now you are telling me, you are trying to play games and say oh, that doesn't really mean 2,000, and I apologize, maybe I misspoke. I don't think you misspoke. I think that there were in fact over 2,000 counterdrug flights originating from Howard.

Ms. SALAZAR. When I spoke 2,000 counterdrug flights, we were talking about flights that included resupplying, bringing in equipment, bringing in individuals and probably involved in some of those numbers were flights that did not necessarily have the counterdrug nexus. If you wish, I can bring you concrete numbers as to the types of flights that we were doing out of Howard Air Force Base prior to its closure and what we are doing right now.

When I spoke of the 520 flights, I am talking specifically of 520 detection and monitoring flights. That is, those flights that specifically took off from either Aruba-Curacao or one of the FOLs and did surveillance over any specific region. Of those detection and monitoring flights, specific detection and monitoring flights, we did 520 in the base year 1998, and this year we did 600 of those flights, detection and monitoring.

Mr. BARR. So your position now is, just by coincidence, when we are up here trying to get to the bottom of some things here and to find out why we don't have the same capability that we had under Howard, you are now trying to convince us that even without further work on any of these bases, these FOLs, even without any AWACS, that you expect us to believe that the air coverage for this region is now even better than it was when we had Howard and were operating out of Howard?

Ms. SALAZAR. Sir, the big difference between the types of flights that are taking place—

Mr. BARR. Are you trying to with a straight face convince us that the situation is now even better than it was when we had Howard?

Ms. SALAZAR. No, sir; I am trying to give you the facts.

Mr. BARR. You are telling me that according to your now new definition of what a counterdrug flight is, that there are more counterdrug flights now than there were when we had Howard?

Ms. SALAZAR. The difference between the activities or the flights taking place when we had Howard and now is the AWACS. All the other assets are flying in the region. They are either flying Aruba/Curacao—

Mr. BARR. What AWACS? There aren't any AWACS down there.

Ms. SALAZAR. Sir, we have right now, this year alone, we were provided an AWACS, and it flew—16 percent of the number of flights I provide you were AWACS.

Mr. BARR. Over 300?

Ms. SALAZAR. Over 300? Are we talking about the number of AWACS?

Mr. BARR. No, the number of flights.

Ms. SALAZAR. No, sir, I am—

Mr. BARR. I thought you said there were something over 500 flights?

Ms. SALAZAR. 600 flights. Of those 600 hundred flights, 16 percent of those flights were AWACS related.

Mr. BARR. That is what I am saying.

Ms. SALAZAR. Sixteen percent. One, six.

Mr. BARR. I thought you said 60.

Ms. SALAZAR. No, I apologize. Sixteen.

Mr. BARR. I now realize we can't take anything for granted. You didn't say AWACS flights, you said AWACS related.

Mr. SALAZAR. They are AWACS. AWACS flights. I can give you the breakdown of the number of flights that the P-3s did, the number of flights the Citations did, the number of Double Eagle packets.

Mr. BARR. But those 600-something flights are counterdrug flights?

Mr. SALAZAR. That is correct, sir.

Mr. BARR. And you are trying to have us believe—

Mr. SALAZAR. Sir, they are detection and monitoring flights. Those are not flights where we were moving people around, where we were moving equipment. These are 600 bona fide surveillance flights.

Mr. BARR. I don't know what you mean by bona fide anymore. Maybe we have to go back to basics. What does a counterdrug flight mean?

Mr. SALAZAR. A counterdrug flight, the flights that I pay for, that they use my funding for, has to have a counterdrug nexus.

Mr. BARR. What is a counterdrug nexus?

Mr. SALAZAR. It could be that they were moving people around, that they were trying to transport people from one place to another. It could be transporting equipment. It could be ISR, which is different than detection and monitoring flights. So when you take all these different types of counterdrug flights, what I am telling you right now is the detection and monitoring, the flights that we perform to be able to do the surveillance, was 600.

Mr. BARR. So detection and monitoring flights would be a subcategory of a counterdrug flight?

Mr. SALAZAR. That is correct, sir.

Mr. BARR. And when you use the figures for here, which are you using?

Mr. SALAZAR. The figures I am using for here are detection and monitoring.

Mr. BARR. So I go back. Your testimony today is you are trying to convince us that despite what seem to be glaring problems here in getting sufficient planes in the air and down there, that the situation is actually better today because you have more detection and monitoring flights in the air than we did previously with Howard?

Mr. SALAZAR. I am not—if you believe—if that is what is understood from my testimony, then I am going to give a caveat. We acknowledge most of those flights took place, those detection and monitoring flights, took place in the transit zone. What I am trying to say is that is the biggest challenge we have right now. We need to be able to take those 600 flights and start increasing the number of flights in the source zone.

So I am not—I am acknowledging—

Mr. BARR. What zone do we have here?

Mr. SALAZAR. Both.

Mr. BARR. Other than the twilight zone, I think.

Ms. SALAZAR. No, sir.

Mr. BARR. Where is the transit zone?

Mr. SALAZAR. If you look at the blue star and the circle around the blue star, we would classify that as the transit zone. Excuse me, excuse me, the source zone. The star, the green star—I would say above the green star, that would be the transit zone, all the Caribbean region and the east-Pac region. What I am trying to say, each one of those circles doesn't necessarily encompass one region, the transit zone or the source zone regions.

Mr. BARR. When we heard from you earlier, when we talked about the number of counterdrug flights per year originating from Howard, did that include both source zone and transit zone also?

Mr. SALAZAR. Yes. The 2,000 flights, yes.

Mr. SOUDER. What about the 540?

Mr. SALAZAR. The 520, that would include both transit zone and source zone. Sir, I am acknowledging here we have a problem. Most of those flights have been in the transit zone. The priority of this administration has been to get those flights into the source zone where they need to be.

Mr. BARR. These figures may not mean an awful lot.

Mr. SALAZAR. They mean there has been great effort—

Mr. BARR. You really have to go beyond simply whether it is 2,000 or 500 or 600 and look at precisely what kind of flight it was.

Mr. SALAZAR. I agree.

Mr. BARR. And precisely what area it covered.

Mr. SALAZAR. I agree.

Mr. BARR. Somebody take that off then, because it is absolutely meaningless and I don't want it to confuse the issue.

Looking at the particular airfields at the FOLs, it is correct, is it not, that these are civilian airfields?

Mr. SALAZAR. No. The Manta is an Air Force Base that does also have a runway that has international flights. The Salvador is also an Air Force Base, but also it is right next to an international airport.

Mr. BARR. What about Aruba/Curacao?

Mr. SALAZAR. Aruba/Curacao are international airports.

Mr. BARR. So you all have a problem. Obviously, one problem is security and having nonmilitary personnel spotters who could very easily spot what aircraft is coming and going, and when.

Mr. SALAZAR. And that, unfortunately, has been the case even when we were in Panama. The issue of the spotter was an issue we had to constantly battle with. I guess the advantage, if there is an advantage in this, is that having three airports or four airports where we are flying out of, it just makes it somewhat more difficult for the traffickers to predict at what point we are going to be flying an AWACS or P-3 in any given area or region. But when we were in Panama, the spotters—

Mr. BARR. You wouldn't say it is an insurmountable burden for them, though, certainly? You wouldn't say it is an insurmountable problem for the drug traffickers, given they have billions of dollars?

Mr. SALAZAR. They have a lot of resources. Even when we were at Howard, we had to deal with this problem.

Mr. BARR. Could I, Mr. Chairman, I would like to introduce into the record a document entitled Legislative Assembly Law No. 5 of January 16, 1997, from the Republic of Panama.

Mr. MICA. Without objection, so ordered.  
[The information referred to follows:]

ACTA DE PRESENTACIÓN DE OFERTAS  
PARA LAS CONCESIONES EN LOS PUERTOS DE BALBOA,  
CRISTÓBAL Y EL FERROCARRIL DE PANAMA

En el día de hoy, 17 de junio de 1996, a las cinco (5:00) PM, comparecieron al salón de reuniones del Ministerio de Comercio e Industrias las empresas que presentaron oferta para la(s) concesión(es) a efectuarse en los puertos de Balboa, Cristóbal y el Ferrocarril Transistmico.

Las ofertas económicas de las empresas participantes corresponden al siguiente detalle:

EMPRESA	Pago Fijo Anual	% del Ingreso Bruto	% de Acciones
Hutchinson HIT	10 mm	7%	10%
Kansas City	SC	5% → 10%	SC
U.S. COOPER T. SMITH KAWASAKI	10 mm	7.5% no cont. 3% cont.	10%
U.S. BECHTEL	11 mm	7.5%	12%
U.S. SSA MIT-MAERSK	11.6 mm	8% 2mm minimo	10%
Entre Canales	10 mm	6.25%	12%

Para su debida constancia es firmado este documento en la ciudad de Panamá, a los 17 días del mes de junio de 1996, a las PM.

<u>BIT</u> EMPRESA	<u>[Signature]</u> REPRESENTANTE
<u>HIT</u> EMPRESA	<u>[Signature]</u> REPRESENTANTE
<u>Bechtel Enterprises</u> EMPRESA	<u>[Signature]</u> REPRESENTANTE
<u>Kansas City Railroad</u> EMPRESA	<u>[Signature]</u> REPRESENTANTE
<u>KAWASAKI</u> EMPRESA	<u>[Signature]</u> REPRESENTANTE
<u>[Signature]</u> Ministerio de Comercio e Industrias	
<u>[Signature]</u> Autoridad Portuaria Nacional	



Mr. BARR. Is the GAO report to which our colleague Mr. Rohrabacher referred to, is that a part of the record also from December 1999, the GAO record?

Mr. MICA. It has been made a part of the record in the past. We did a hearing specifically on that report. We will refer to that for that.

Mr. BARR. Thank you very much, Mr. Chairman.

Mr. MICA. Thank you. Mr. Ose.

Mr. OSE. Thank you, Mr. Chairman. I want to go back, if I may—

Mr. MICA. We are going to have a vote shortly, and I would like to try to get our witness up, so maybe we could divide the time up remaining.

Mr. OSE. I will submit my questions in writing, Mr. Chairman.  
[The information referred to follows:]

**Questions for the record at Drug Policy Hearing on  
June 9 submitted by Congressman Ose.**

**A FOL map at the hearing indicated the range of the P3 vs. the range of the AWACs. Does it cost as much to operate a P3 as an AWACs? When I talk about cost, I am talking about full cost, including but not limited to crew, fuel, security, and maintenance.**

**Is the difference in relative operating costs in the nature of one order of magnitude? Is it more than one order of magnitude? Or, is it less than one order of magnitude? Is the difference in operating costs a multiple of the less expensive plane? If so, how many multiples is it?**

**Is there a difference in the performance of a P3 vs. an AWACs for this type of mission? In other words, is a P3 as effective as an AWACs? If so, what is the relative performance: 50%? 60%? 70%?**

The testimony was that the cost of all flights at Howard AFB was \$75,000,000 on an annual basis. **What was the cost of the flights that had a nexus to the drug detection and monitoring efforts that occurred at Howard AFB from June 1, 1998, through May 31, 1999? What is the estimated total operating cost for the drug detection and monitoring efforts that will now occur from the three forward operating locations?**

**When Ms. Salazar reports that there have been about 600 flights out of the forward operating bases this year, does this allow a direct comparison with the number of flights that occurred out of Howard prior to its closure? In other words, are we talking about 600 flights of P3 planes vs. 520 flights of AWACs planes? Please provide a breakdown of the flights (by plane type, mission and time on station) with a nexus to the drug detection and monitoring effort from Howard AFB for the respective forward operating locations (by type of plane, mission and time on station) for the period June 1, 1999, through May 31, 2000.**

Mr. MICA. Mr. Souder.

Mr. SOUDER. I have one brief comment I want to make.

Mr. SALAZAR. I understand that the Coast Guard is very worried about the increase in gas prices, at we have some in the supplemental, but they are saying they could be down as low as 10 percent of their coverage in the transit zone. So we also have to be looking at mixed resources.

I would like to request for the record an "apples to apples," so that we can look back on this hearing and try to see this, possibly using the definition, because I have a different concern, slightly, than Mr. Barr had. Now I feel kind of duped by the 2,000, because I thought the 2,000 were flights that were tracking, which may mean we had a more significant drop earlier.

What I would like to see, given the specifics of the definition, a 1990, a 1995, a 1998—

Mr. MICA. Mr. Souder, it is very difficult. We have been round and round and they have changed the definitions. There were in fact 15,000 flights taking off annually from Howard Air Force Base. Some of those were military, some might have had a drug nexus, some might have been delivering personnel. We have been behind closed doors and tried to sort this out. We have gotten different definitions and evaluations. I would be glad to again look at your request. We can go back and sit down. But the terms have changed, the definitions have changed, and you are not going to get a straight answer.

Mr. SOUDER. I would like to know what the witness's statement of 2,000 constituted, and then I would like to have that compared by the Department of Defense to before and afterwards, apples to apples, because right now you have shaken the confidence of our ability to measure, because when we were told, it was counter-drugs; and now we are hearing it was shuttling around in 1998. Part of our concerns in 1998 were we were already cranking down from 1995, and 1995 was arguably maybe starting to go back up, but from 1990. So we are really comparing things here that the base years are important and we need a little bit of a pattern of a definition.

Mr. MICA. We will request that information.

Mr. SOUDER. We would really like surveillance and detection flights, 1990, 1992, 1995 and 1998. That is really the critical thing. If we are going to go out 600, I would like to see some years before Clinton, and source zone emphasis.

Mr. MICA. Briefly, Mr. Rohrabacher.

Mr. ROHRABACHER. I know we have a vote, so let me just state for the record that Mr. McNamara, who was a negotiator for this administration with the Panamanian Government, testified before the committee on which I sit, International Relations Committee, that there was a need and that the administration determined a need for a 2-year cooling off period; in other words, for a closure of all America's military presence in Panama for a 2-year period before we would then start negotiations, serious negotiations, for an American military presence. Which seemed to indicate that what has been happening down there, the fact that you open your eyes and there is now no Americans down there in order to have a posi-

tive influence on Panama, was part of an actual policy, although it hasn't been stated.

What we have been discussing, of course, in this last little interchange about the 2,000 flights is simply what the definition of "is" is, and it keeps coming back over and over again with this administration, and we keep having to face questions like that.

Mr. MICA. Thank you. Well, we do have a vote. We will be submitting additional questions for the record to these witnesses. I appreciate their cooperation and testimony today. We will dismiss them at this time.

[The information referred to follows:]

1.

Q. When are the four FOL's expected to be fully operational? In SOUTHCOM's estimation, will these four FOL sites be sufficient to meet our counter-narcotics detection and monitoring needs? If not, how many other sites will be needed? Is there a need to consider extending the lease agreements for each of the four FOL's beyond ten-years?

A. The FOL at Manta, Ecuador, will be fully operational in June 2002 provided funding is made available in July 2000. All construction will be complete at the Aruba/Curacao FOL in December 2002. The schedule for the El Salvador FOL is not firm, however our expectation is for construction to be completed by the end of 2002. The FOL architecture, built around these three FOLs, will be sufficient to meet the counter-narcotics detection and monitoring requirements and no further FOLs are envisioned to be necessary. The FOL agreements allow for the extension of the lease agreements beyond ten years, provided both parties agree, however it would be premature to speculate on any such requirement.

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2.

Q. How much military construction money and operating money has been requested for each FOL in fiscal year '01? How much was requested in the FY-00 Colombia aid supplemental? How much is needed for FY-02?

A. The military construction (MILCON) and operating funding requirement are as follows:

FOL	MILCON (\$ millions)		Operating (\$ millions)
	CO Supplemental / FY 2001 <sup>1</sup>	FY 2002	FY 2001 <sup>2</sup>
Curacao / Aruba	54.15	0.00	9.90
Manta	61.27	0.00	13.04
El Salvador	1.10	9.30	3.70

<sup>1</sup> The only MILCON funding in the Colombia Supplemental request was for the \$38.6 million Manta runway projects. The final version of the Colombia Supplemental, as attached to the FY01 Defense MILCON Bill, combined both the initial Supplemental request and the Department's FY01 MILCON requirements for the FOLs.

<sup>2</sup> FY01 President's Budget Submission.

3.

Q. How many counterdrug surveillance flights were flown out of Howard Air Force Base annually? How many are currently being flown out of the existing FOL's? What percentage of these flights is being flown in the source (as opposed to the transit zone)? How many counterdrug flights do we expect to fly out of all four FOL's, once they are fully operational?

The response to this question will be provided by General Wilhelm.

4.

Q. What were the numbers of counterdrug assets (planes, equipment, personnel) we had at Howard compared to what we will have at the four FOLs?

The response to this question will be provided by General Wilhelm.





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5.

Q. With regard to AWAC's planes, how many are currently dedicated to SOUTHCOM's counterdrug mission? How many AWAC counterdrug flights were flown in each of the last five years? Who decides the level of AWAC time dedicated to the counterdrug mission in Latin America? Why can't we get more of these national assets dedicated for the counterdrug mission?

*delete*

6.

Q. Are the existing FOL's sharing direct intelligence information with each other or will it all be fed to a central location and then disseminated to appropriate response forces? In the future, will all four FOL's be able to share intelligence information on a real-time basis.

The response to this question will be provided by General Wilhelm.

7.

Q. The testimony was that the cost of all flights at Howard AFB was \$75,000,000 on an annual basis. What was the cost of the flights that had a nexus to the drug detection and monitoring efforts that occurred at Howard AFB from June 1, 1998, through May 31, 1999? What is the estimated total operating cost for the drug detection and monitoring efforts that will now occur from the three forward operating locations?

The response to this question will be provided by General Wilhelm.

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8.

Q. When Ms. Salazar reports that there have been about 600 flights out of the forward operating bases this year, does this allow a direct comparison with the number of flights that occurred out of Howard prior to its closure? In other words, are we talking about 600 flights of P3 planes vs. 520 flights of AWACs planes? Please provide a breakdown of the flights (by plane type, mission and time on station) with a nexus to the drug detection and monitoring effort from Howard AFB for the respective forward operating locations (by type of plane, mission and time on station) for the period June 1, 1999, through May 31, 2000.

The response to this question will be provided by General Wilhelm.

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Counterdrug Implications of the U.S. Leaving Panama

9. (Originally submitted to SOUTHCOM as question #10)

Q. A FOL map at the hearing indicated the range of the P3 vs. the range of the AWACs. Does it cost as much to operate a P3 as an AWACs? When I talk about cost, I am talking about full cost, including but not limited to crew, fuel, security, and maintenance.

A. USAF and US Customs Service (USCS) cost data are tracked differently. The USAF estimate of historical cost per hour for the E-3 is \$5,100. This includes fuel, lubricants, and expendable parts, but does not include other maintenance costs. The USCS estimate of historical cost per hour for the P-3 Airborne Early Warning (AEW) is \$4,081, but this includes fuel, lubricants, and all parts, maintenance, and training costs. USCS estimates of costs based on just fuel, lubricants, and expendable parts (USAF equivalent) varied from \$1,200 to \$1,800 per hour. Manning for a typical E-3 CD detachment is 34 (16 aircrew, 8 maintenance, 10 security). A typical P-3 AEW detachment is 11 personnel (8 aircrew, 3 maintenance). E-3 cost and manning numbers do not include tanker support, which is required for long range/endurance operations. E-3 and P-3 AEW numbers do not include tracker support, which would be about the same for each platform.

Although a consideration, cost is not the only decision making tool used to determine the most appropriate aircraft, or mix of aircraft, necessary to accomplish the mission. The P3 AEW, alone, is not capable of performing all of the counterdrug mission in the US Southern Command area of responsibility -- due to range, speed and capability limitations. This is particularly true in the deep source zone where the P3 AEW must forward deploy to a fixed site before operations can begin. In this situation, forward deployment compromises the element of surprise required to successfully interrupt the air movement of illicit narcotics in these remote areas.

10. (Originally submitted to SOUTHCOM as question #11)

Q. Is the difference in relative operating costs in the nature of one order of magnitude? Is it more than one order of magnitude? Or, is it less than one order of magnitude? Is the difference in operating costs a multiple of the less expensive plane? If so, how many multiples is it?

A. E-3 cost per hour is approximately three to four times that of the P-3 AEW (based on estimated USCS cost per hour for fuel, lubricants, expendables). E-3 manning requirement is approximately three times that of the P-3 AEW.

Notwithstanding the similarities of the aircraft and the apparent cost savings of the P3 AEW, the P3 AEW alone is not capable of performing all counternarcotics missions in the source zone as envisioned in the US Southern Command counterdrug campaign plan. This is not just a question of relative performance nor of cost savings alone. The refueled range, speed and capabilities of the AWACS uniquely qualify it to provide a relatively rapid response to intelligence cued operations while still providing sufficient loiter time to ensure mission success. Furthermore, these operations require an element of surprise, which is possible to achieve with an AWACS deployed from a site in Ecuador flying an operation in Peru. It is not possible to achieve a similar level of surprise with the P3 AEW, which is capable of deep source zone operations only when forward deployed and operating from a fixed site. These deployments are well known in advance, hence compromising the element of surprise and undermining operations security. An aircraft mix provides an acceptable likelihood of success.



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11. (Originally submitted to SOUTHCOM as question #12)

Q. Is there a difference in the performance of a P3 vs. an AWACs for this type of mission?  
In other words, is a P3 as effective as an AWACs? If so, what is the relative performance: 50%?  
60%? 70%?

*delite*

Subcommittee on Criminal Justice,  
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12. (Originally submitted to SOUTHCOM as question #8)

Q. Why is the U.S. Navy (vice U.S. Air Force) in charge of operating and maintaining the FOL in El Salvador?

A. The primary aircraft operating from the El Salvador FOL will be U S Navy P-3 Maritime Patrol Aircraft (MPA) along with US Coast Guard C-130 MPA which will cover the transit zone in the eastern Pacific. Additionally, there are no plans to operate US Air Force AWACS from the El Salvador FOL. Another concern within the Department was to spread the FOL sustainment requirement between more than one service. For these reasons it was determined that the US Navy would be the most appropriate service to manage the FOL in El Salvador.



Questions for the Record Submitted to  
Assistant Secretary of State Rand Beers  
By Chairman John L. Mica  
Criminal Justice, Drug Policy and Human Resources  
Subcommittee  
of the House Committee on Government Reform  
June 1, 2000

QUESTION 1:

The United States transferred the Panama Canal, along with the rest of the 360,240-acre Canal Zone to Panamanian Jurisdiction in December of 1999. We knew that the transfer was going to take place in accordance with the 1977 treaty. Why were there no counterdrug contingency plans started before the handover so that counterdrug operations would not be interrupted?

ANSWER:

In June 1996, as part of ongoing negotiations regarding a possible post-1999 U.S. military presence, then-President Perez Balladares of Panama proposed a Multilateral Counter-narcotics Center (MCC) to be based at Howard Air Force Base. The USG welcomed the idea of the MCC, but indicated to the Perez-Balladares government that, beyond using Howard as a platform for counter-narcotics interdiction for a period of at least 12 years, the USG would require its use for training, regional logistics, search and rescue activities, and other related missions. We could not justify the cost of maintaining the base itself and the personnel, equipment and resources necessary to do the counter-narcotics task without the ability to carry out these other activities.

Though the Government of Panama gave some initial indications that it could agree with our requirements, after a referendum on presidential re-election failed in August 1998, a politically weak Perez Balladares asked that we end the talks. In the end, our needs for a cost-effective presence -- by which we mean one that permitted a full range of missions at Howard -- could not be reconciled with Panama's political requirements. Accordingly, we issued a joint statement ending negotiations on September 24, 1998.

In the wake of that development, the Department of Defense determined that U.S. counterdrug aerial tracking and monitoring capabilities in the narcotics source and transit zones would suffer significant degradation unless forward operating locations (FOLs) were quickly negotiated elsewhere in the region. DOD identified the primary FOL sites to be Manta, Ecuador, the Netherlands Antilles (Curacao) and Aruba, and an unspecified Central American site (which later became El Salvador). DOD has used Roosevelt Roads, (Puerto Rico) and other continental U.S. based locations as interim support sites until securing use of primary sites was concluded and those facilities became fully operational.

Before Howard Air Force Base completely ceased flight operations last May, the USG concluded interim access and use

agreements with Ecuador and with the Netherlands for Aruba and Curacao. Since that time the U.S. has made significant progress toward negotiating long-term agreements which are already enhancing our capabilities. In November 1999, we successfully negotiated an agreement with Ecuador (for use of the Manta airfield). In March 2000 we negotiated agreements with the Netherlands (for use and access of air facilities on Curacao and Aruba) and with El Salvador (for use and access to Comalapa Air Base).

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QUESTION 2:

What is the level of Revolutionary Armed Forces of Colombia (FARC) activity in Panama?

ANSWER:

The exact degree of FARC activity in Panama is unclear, but from what we are aware, FARC presence in Panama primarily consists of the rebels entering Panama for rest-and-recreation or "spilling" across the border to escape Colombian government security forces or Colombian paramilitaries. There are also intermittent reports that the FARC crosses into Panama to receive arms shipments. The FARC has used the remote Darien Province since the 1960s when Panamanian dictator Omar Torrijos established a policy of peaceful coexistence with the group. The FARC has generally avoided violent acts against Panamanian citizens or authorities that would call attention to their presence in Panama. The Panamanian Security Council recently confirmed the incursion of approximately 70 armed rebels into Panama's Darien province. The villages entered were not

occupied nor were any acts of violence committed against the public.

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QUESTION 3:

Given the reported ineffectiveness of the Panamanian National Police, how much of an increase in FARC activity in Panama can we expect to see in the future?

ANSWER:

It is true the Panamanian National Police, under-equipped and under-staffed, has difficulty adequately patrolling the land border with Colombia and controlling the FARC members and supporters operating in the border zone. Because this border region is a rugged, heavily forested, and undeveloped area, preventing incursions from Colombia is difficult. The Panamanian government increased its presence along the border after reports of skirmishes between the FARC and Colombian paramilitaries and after two civilian helicopters were hijacked last year, presumably by the FARC. The Government of Panama has concentrated its efforts on containing FARC activity in the frontier region, and this approach has been largely successful. We believe that, as Plan Colombia is implemented, the increased pressure by the Pastrana government could prompt FARC leaders to move more fighters and supporters into Panama. However, we do

not anticipate increased FARC activity outside the immediate border area. We intend to consult and work with the Panamanian government to control and contain this threat in the future.

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QUESTION 4:

Have there been any other criminal or narco-terrorist entities operating in Panama?

ANSWER:

Panama is one of the hemisphere's leading money laundering centers, and is major transshipment country for cocaine (and increasingly heroin) destined for the United States. Panama also plays a large role in alien smuggling schemes. There are some indications that Colombia paramilitary groups may be using Panamanian territory to conduct anti-FARC operations. For instance, there are recent reports of an incursion into Panama's Darien Province by alleged Colombian paramilitaries in which six heavily armed men robbed two stores in the Punta Alegre sector for cash, food and other equipment.



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QUESTION 5a:

What level of counterdrug assistance, if any, is the U.S. providing to Panama?

ANSWER:

INL budgeted \$848,000 and \$987,000 in counternarcotics program support for Panama in FY99 and FY00 respectively. In FY99, INL support was aimed at strengthening Panama's enforcement capability through training, equipment, and infrastructure for units involved in counternarcotics operations. Training was also provided to the narcotics and money laundering prosecutors unit and the PTJ special counternarcotics unit. FY2000 funding will augment maritime interdiction efforts by providing long-term technical assistance to the Panamanian National Maritime Service (SMN). Funding will also support the Joint Information Coordination Center to facilitate a counternarcotics intelligence network among GOP law enforcement agencies. Furthermore, INL funding will provide Panama's Financial Analysis Unit with computers and an upgraded security system. These efforts will be accompanied by the provision of legal expertise to develop legislation that will

expand money laundering offenses beyond those related to drug trafficking.

The U.S. also provides assistance for counterdrug programs through the counterdrug drawdown program (\$450,000 for FY 2000) and through the EDA (Excess Defense Articles) program. Section 506 Drawdown Authority allows the President to draw down articles and services from the inventory and resources of any agency of the USG. EDA authorizes the President to transfer excess defense articles to foreign countries if the transfer of such articles will not have an adverse effect on U.S. military readiness. The recipient country must pay all costs of transportation and related costs. Through the EDA program, Panama will receive two Point Class 82-ft. patrol boats in FY01. Through the FY99 506(A)(2) counterdrug drawdown exercise, Panama will receive four 22-foot patrol boats.

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QUESTION 5b:

How much assistance (specifically targeted for Panama) was requested in the Administration's FY-2000 Colombia Aid Supplemental request?

ANSWER:

The Administration requested country-specific funding in the emergency supplemental request for Colombia, Ecuador, Bolivia, and Peru as well as a regional line item equaling \$12 million to go to surrounding countries in Central and South America and the Caribbean. Congress subsequently increased this amount to \$18 million. This funding has not yet been assigned to specific countries.

The American Embassy in Panama City has however, requested additional funding to support Panama's efforts to build a highly professional interagency counterdrug task force. This unit would draw on law enforcement officials from the Technical Judicial Police, the National Police, the Drug Prosecutor's Office and other law enforcement units. It would be designed to increase cooperation and communication among Panamanian units, particularly with the Joint Information Coordination Center

(JICC) and with counterpart U.S. agencies, and protect against corruption. A vetting process would weed out potentially corrupt officials, and provide this unit with greater flexibility and maximum access to intelligence and lead information. The unit would serve as a force multiplier and would capitalize on intelligence derived from existing information.

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QUESTION 6:

Panama has been called an "arms bazaar for Central America." According to Governor Miguel Panovich, (Chiriqui Province, on the Costa Rican border) "Panama's borders are 'an open current' for the arms trade." What is being done to stop the trading of arms for money and drugs in Panama?

ANSWER:

Due to its geographical location and its position as a key transit point for goods destined for Central America or the Andean region, Panama has been and continues to be used for small arms trafficking. Shipments of small arms are smuggled by land and sea into Panama and then on to their ultimate destination such as the insurgent groups in Colombia. Our Customs Attaché in Panama reports that the Panamanian police and other law enforcement authorities are attempting to deal with this problem but are limited in their ability to detect and interdict these illicit shipments. They are working closely with U.S. law enforcement agencies in efforts to stop arms trafficking. Recently a shipment of over 40 automatic weapons was made to a small seaport in Panama. U.S. law enforcement agencies are tracing the weapons seized. The United States is

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QUESTION 7:

A recent news article stated that Panama has only 50 border patrol officers for its nearly 200-mile border with Costa Rica. What is the number of border patrol officers on the Colombia-Panama border to the South?

ANSWER:

There are currently 1,500 border patrol personnel assigned to the Panama-Colombia border. However, due to rotations, there are only 750 personnel present in the region at any given moment. The figure for the Panama-Costa Rica border from the news article is incorrect. There are currently 400 personnel assigned to the northern border. Again, because of rotations, there are 200 persons physically present with 100 personnel on duty during the day and 100 at night. Both the north and south borders are watched 24 hours a day and 7 days a week.

Mr. MICA. What I am going to do is, since there is a vote, I think we will recess until a quarter of one. At a quarter of one, we will have Professor Thomas Cabal provide his testimony and hear from our second panel. With that, we will excuse this panel.

The subcommittee stands in recess until a quarter of one.

[Recess.]

Mr. MICA. I would like to call the subcommittee back to order. We should be joined by other Members. But I do want to call forth our second panel so we can proceed.

Our second panel consists of Professor Tomas Cabal. He is with the University of Panama. Welcome to our subcommittee. This is an investigations and oversight subcommittee of Congress. We are pleased to have you provide us with your oral testimony, and also upon request through the Chair, we will be glad to submit lengthy documents or information, reports in the record, or make reference to them by request.

Also, this being an investigations and oversight subcommittee, we do swear in our witnesses. If you would stand, please, to be sworn.

[Witness sworn.]

Mr. MICA. The witness has answered in the affirmative. I am pleased to welcome you at this time and also to recognize you for your testimony and also thank you for being with us, for the record. I understand it was somewhat difficult and straining circumstances on your coming, leaving Panama, to provide us testimony, and we do appreciate your willingness to come forward and supply us with your background and point of view at this juncture. Thank you.

**STATEMENT OF PROFESSOR TOMAS CABAL, UNIVERSITY OF PANAMA**

Mr. CABAL. Thank you, Congressman Mica. I want to do two things. I will submit my written testimony, as I will only cover part of my statement—

Mr. MICA. Without objection, your entire statement will be made part of the record. Please proceed.

Mr. CABAL. Right. And then, I will cover the areas having to do with the Chinese presence in Panama.

I would also like to preface my statement by thanking Congressman Rohrabacher, Congressman Barr, Congressman Metcalf, for their role in securing or making sure that I was present today at this hearing. As you mentioned in your statement, it was very difficult. We still have very stringent libel laws in Panama, we call them gag laws, introduced by the Noriega regime, precisely to persecute, prosecute and intimidate citizens and journalists just trying to do our job. So again, thank you to your efforts that I am here today.

I also would like to address some of the issues brought up by the panel, because I think there is a lot of information that has not been properly presented, and some of that information I think is clearly misleading.

I have a background in engineering and my family has been involved in construction in the Panama Canal Zone for over 20 years. We built many of these bases, the housing involved, and we also

helped build a key facility that has been closed down, which is Galata electronic listening post that operates on the Atlantic side.

If you will, Mr. Chairman, I will go directly into my testimony and bring up some points that were brought up in the question and answer period by some of the Congressmen.

The presence of Red China. In the last 5 years, powerful Chinese companies have invested millions of dollars in Panama. Recently the Hong Kong Shanghai Banking Corp. purchased the local branch of the Chase Manhattan Bank. Cable and Wireless, an English corporation with close ties to Hong Kong, owns Panama's phone company. Hong Kong and China export 25 percent of all the goods purchased by the Colon Free Zone. Hutchison Whampoa, a Hong Kong-based company that operates ports worldwide, won the right to operate the ports of Balboa and Cristobal on the Pacific and Atlantic entrances to the Panama Canal.

Experts disagree on the level of influence that the Chinese will have in Panama, but congressional investigators and the National Security Center note that the contract they signed allows them abundant leeway in their operation of the port facilities. Hutchison controls 50 percent of all stevedoring services in Hong Kong, a situation that lets them set container transport prices and may allow them to undercut their competitors in Panama. Li Ka Shing, Hutchinson's chairman, is a key advisor to the Chinese leadership in Beijing.

Some experts believe that Hutchison will be able to affect canal operations and that they could impede the normal flow of vessels, a contention disputed by the Panama Canal authorities, who insists that only they can determine the level of expediency in canal traffic.

With America's retreat from Panama, the Red Chinese are quickly filling the power vacuum. Companies identified by the Cox report as participating in industrial espionage or the purchase of restricted technology are active in Panama.

COSCO, the Chinese shipping company that services the People's Liberation Army, sends 300 ships every year through the Panama Canal. They are investing heavily in Panama and have just started a new service from China to Europe via the canal. Other Chinese companies will take advantage of the modernization of the Panama railroad, while others will be bidding the operation at Howard Air Force Base, investments that could put them in a commanding position in Panama. The presence of Red Chinese companies may tilt the diplomatic balance in favor of Beijing.

Currently, Panama maintains diplomatic relations with Taiwan, but as the Bahamian Government just proved, a \$40 million investment by Hutchison Whampoa in port facilities led to a switch in its diplomatic allegiance from Taipei to Beijing.

Continued investment by Chinese corporations could greatly diminish the ability of the United States to influence events in Panama. The Chinese community is already very influential, and with the support of Chinese companies and investments this influence could increase. The Government of Panama wants foreign investment, but as a recent poll shows, 81 percent of the population would welcome the return of the United States and would support



a limited American military presence to aid the country in its war on drugs and to secure the Colombian border.

The key to any negotiations that would bring back American military forces to Panama is a fair economic arrangement between both countries. The United States still has an opportunity to influence events in Panama through investment and foreign aid. Panama needs \$100 million to fully implement a national security plan that would protect the Colombian border and limit the activities of international drug traffickers.

As part of the aid package to Colombia, the Congress only included \$8 million in aid to Panama. The Panamanian Government needs to purchase helicopters, patrol boats, aircraft, radar and communication equipment, and it needs to improve the training and equipment provided to the border police. A naval base to patrol the Atlantic companies must be constructed, while radar coverage must be extended to cover the Pacific area and the Colombian border.

On the Pacific side, the United States Coast Guard could be instrumental in reopening Rodman Naval Station, a modern naval facility located near the entrance to the Panama Canal. The Coast Guard could also be instrumental in helping the National Maritime Service improve its interdiction ability in Panamanian territorial waters. American corporations could become key players in the bid to transfer Howard Air Force Base into an international air cargo facility that would take advantage of its proximity to the canal and the Colon Free Zone to ship goods all over the world. Tax incentives and export-import funding could help American companies invest in Panama if Washington and the Congress decided that Panama is still an important strategic partner for the United States.

American companies ship more than 140 million tons of cargo through the Panama Canal every year. The canal is still very important to American commerce and to American prosperity. Many experts agree that a new strategic partnership between Panama and the United States is the key to the operation of a safe and efficient international waterway that is a marvel of modern engineering and Yankee ingenuity. Many people in the United States and Panama would like the two countries to reestablish a strategic partnership, then, to enhance canal security and to protect both nations from the threat of international drug traffickers.

Organizations like the Center for Security Studies, the Conservative Caucus, and the National Security Center have been instrumental in getting the issues before public opinion in Panama and in the United States.

Let us hope that the elected representatives of the people in the U.S. Congress examine the facts and work toward reestablishing a strategic alliance that will enhance the security of both countries.

On the issue of drug interdiction flights, you mentioned, and we heard today, all types of figures being bandied about. The figures start at 20,000. Those were the flights coming out of Howard Air Force Base.

Howard Air Force Base has the longest runway and the best infrastructure of any facility of its kind south of the Rio Grande. The United States does not have and will not have in the near future a facility such as Howard Air Force Base.

Another element that I notice was not fully analyzed this morning has to do with what intelligence experts call real-time information. The antidrug center that operated at Howard Air Force Base had a budget of \$238 million a year. This amount of money was expended because you had the air crews living and working out of Panama on a rotation basis, the aircraft were serviced and maintained, they were fueled. The facility also had top-of-the-line computers and communications facilities that tied in to the Galata Island communications facility, so that when the AWACS and the P-3 Orions were operating, this information could be fed and coordinated with other regional radar coverage. The United States provided the Governments of Colombia, Peru and Venezuela with radar coverage that allows them to monitor and to intercept suspicious drug flights.

One of the outcomes of the operation of the antidrug center at Howard Air Force Base and real-time information getting promptly to law enforcement and to military groups in the region, was that the drug interdiction, the aerial drug interdiction effort, was very successful. From 1995 to 1998, 38 aircraft were shot down in the region. Drug planes were shot down, most of them by the Peruvian Air Force that has been very aggressive. The Peruvian philosophy is if you do not hail an order to land the aircraft, you are shot down.

The Colombians have a little different variety. They pursue the aircraft and try to force it to land, rather than shoot it. But recently they too have resorted to the effort at shooting down, and recently a suspected drug plane was shot down on Colombian territory. So that in itself accounted for a substantial increase in the price of coca in the region producing the cocaine.

The other aspect that I think was not fully addressed, and you can look at it, if one of the staffers would be kind enough to put the circle there again to look at it, it is the fact that Panama is a strategic center because of its very close proximity to the countries producing cocaine. Here you have extended coverage. Yes, you might extend the coverage, but you are not that close.

It means we haven't heard any figures pertaining to the cost of fuel, which in my estimate, will skyrocket because of the increased distances that the aircraft will have to fly. The distances also mean that the aircraft will not be able to be in the air for longer periods of time. And Howard Air Force Base is a key element to that because of its proximity to the regions that are producing these drugs that are inundating the streets and cities of the United States.

Another element that I think fits and has not been fully disclosed to this subcommittee is the fact that along with drug interdiction, you have facilities in Panama like at Fort Sherman where training could be enhanced, not only for Panamanian border police, but for regional armies, that can train in the counterinsurgency and the jungle training so needed in areas such as this.

In the Darien province which was mentioned this morning, we share a very heavy jungle terrain, tropical rainforest border, 225 kilometers with Colombia, which is now becoming a haven for the FARC guerrillas. Over the last 2 weeks, more than 1,000 Colombian citizens have fled the fighting between the paramilitary, the Colombian Army and the FARC guerrillas and are now in Panama-

nian territory. This last week there were two or three incidents of groups of armed Colombians coming into Panamanian territory in areas where the Panamanian police simply can't do the job.

Panama's national air service has one helicopter operational and three small fixed-wing aircraft to patrol the Colombian border. The maritime service does not really have the equipment or the capacity or the infrastructure to patrol both the Atlantic Coast and the Pacific area which, because we have no radar coverage out of Howard anymore, that area is completely open. There is no radar coverage in this area.

Now, whether this administration is going to provide radar coverage in the so-called eastern region, again, remains to be seen. But the way this thing works is you have regional radar coverage, and then in each individual producing country, you have smaller mobile radars that are operated by the local military with the support and training of American personnel.

As you know, Mr. Chairman, there are now close to 300 military advisers in Colombia trying to get the antinarcotics battalion fully operational, trying to get Plan Colombia off the ground. In Plan Colombia, this Congress intends to spend, what, something like \$1.6 billion to try to help the Pastrana administration win its war against drug traffickers and Colombian subversives. All they have to do, Mr. Chairman, is cross the border, and it is time out. They simply cross the border and they will escape the Blackhawks or the Hueys you give them or the new battalions they train. They will simply cross over into Panamanian territory and hide out like they have done for the last 10 years.

Arms smuggling. There is an ongoing route that begins in the Middle East with Libyan arms trafficker, East European arms traffickers. The weapons are shipped basically to Honduras and Nicaragua, and then from then on by land and sea they are shipped into Panama and on to the Colombian subversives. This is one of the fallouts from the paramilitary and the left wing guerrillas in the Caribbean area of Uraba province, which the Colombian province of Uraba borders the Panamanian territory, is that both the right wing and the left wing need the access to the Caribbean Sea to get their weapons in and to ship their drugs out.

Colombian guerrillas and paramilitary profit about \$600 million a year in the sale and export of drugs. They have moved from simply protecting and taxing the campesinos, the farmers that grow the drugs, into overall commercialization, refinement. And, of course, as you know the FARC guerrillas now control free territory the size of Switzerland, in which laboratories are now operational, in which cultivation is now taking place. That is why the figures that were presented here by the DEA representative have skyrocketed.

In the last year, Colombian drug production has risen by about 25 percent. That means a rise from around 450 tons of cocaine produced in 1998 to between 520 and maybe as much as 650 tons of cocaine.

Heroin is also rising in the areas occupied by the guerrillas. The estimates by experts is anywhere between 7 and 10 tons of high-grade heroin are now flowing into the United States, almost single-handedly from the Republic of Colombia, between 7 and 10 tons.

This transit goes through Panama. The figures we have is about 300 tons of cocaine and maybe 2 to 4 tons of heroin are shipped through Panama every year into the United States.

So I guess the administration can argue on the values of how much they are going to have to spend on these forward operation locations and whatnot, but the fact is that real on-the-ground intelligence, real human resources being utilized close to where the action is occurring, is certainly much more effective.

There are issues, of course of politics and Panamanian sovereignty, which the chairman there addressed. But, overall, the American military presence was a welcome presence. Eighty-one percent of the Panamanian people want Uncle Sam to come back. They are not saying, "Gringo go home," they are saying, "Gringo, come on down." Why? Because the American military presence, the infrastructure and the jobs that they generated signify some \$300 to \$400 million in the local economy.

The Panamanian economy is today in a severe economic recession because high-paying workers have lost some 20,000 jobs. There are about 100,000 Panamanians that depended in one way or another from the American military presence. That is gone. This money fueled the economy, and we in Panama were not prepared. The government was not prepared to make that transition.

[The prepared statement of Mr. Cabal follows:]

CONGRESSIONAL TESTIMONY

JUNE 9, 2000

PANAMA AFTER THE AMERICAN DEPARTURE

By Dr. Tomas A. Cabal

INTRODUCTION

Six months after the United States closed all its military bases on the isthmus and turned over the administration of the Panama Canal to the panamanian government in accordance with the 1977 canal treaties, the country faces new threats to its national security. American troops in Panama have been instrumental in projecting american military might and influence in the Americas. They have served as a pyschological support for foreign investors who believed that the United States would take care of their ventures in Panama. With their departure, Panama must now face renewed threats and challenges that will affect the country's security and will determine its ability to operate a vital international waterway. The closing of the bases has also meant the loss of thousands of jobs for panamanian workers and has led to an economic recession since the U.S. military spent \$350 million dollars a year in the local economy.

DRUG TRAFFICKING- Colombian drug lords have exploited their proximity to Panama to ship large quantities of illegal drugs to the european and american markets. Every year they move some 300 tons of cocaine and large amounts of heroin through Panama taking advantage of the dense jungle terrain that comprises the border. The presence of right wing and left wing subversive groups that fund their operations through drug trafficking compounds the problem. The principal colombian guerrilla

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group known by its spanish acronym as the FARC routinely cross the border to escape pursuit by the colombian military. In the sparsely populated border area they are actively involved in drugs and arms smuggling. Colombian experts estimate that these activities generate \$500 million dollars in revenue for the guerrillas. The insurgents have attacked small villages in the area, killing or kidnapping several panamanian citizens. In 1992 three american missionaries were captured and taken to Colombia; they have never been seen again. Remnants of the panamanian defense forces known as the Macho de Montes trained in counterinsurgency techniques, are also involved in illegal activities. They transport weapons obtained in Central America and exchange them for drugs that are then shipped north. Coastal waters on both the atlantic and pacific ocean facilitate the export of drugs from Colombia through Panama. The country has a very weak naval force and an almost nonexistent air force. The National Air Service has only one operational helicopter and three small fixed wing aircraft to patrol thousand of miles of airspace and territorial waters. The closing of an antidrug center at Howard Air Force Base that allowed the american military to monitor suspected drug flights has left a large gap in the radar coverage that kept tabs on drug activities in the pacific area. Radar and AWAC planes provided the information needed to intercept suspicious drug flights originating in Colombia, Peru and Bolivia. With the departure of american military forces from Panama the country has become a warehouse and staging grounds for large drug shipments headed to the United States.

**ARMS SMUGGLING-** South american insurgent groups use Panama as a transshipment point for weapons purchased in Central America from east european and libyan

3-

suppliers. The weapons travel overland or are shipped from Nicaragua and Honduras to Panama, where local groups then smuggle the weapons into Colombia in exchange for cash and drugs. The heavy tropical rainforest on the border with Colombia and the lack of resources required to maintain a strong and effective frontier police make it easy to ship the guns and explosives to Colombian subversive groups. In the last 9 years Colombian authorities have seized thousands of weapons and at least 300 tons of explosives. This illicit commerce fuels a vicious civil war that has killed or maimed thousands of Colombian citizens.

The funds approved by the congress to help the Colombian government contain the guerrillas and the narcotraffickers will be lost if the Panamanian border is not secured. Under the present conditions the subversives will be able to hide out in Panama and escape the pursuit of the Colombian military. They may also decide to target the canal as retaliation for American support of Colombian president Andres Pastrana.

**MONEY LAUNDERING-** Since Panama uses the US dollar as its legal currency and since the country has very liberal banking laws and operates the largest free zone in the Americas, criminal gangs have used the country's banks to launder money. One of the preferred methods utilized by the Colombian cartels is known as "Peso Brokering". The drug traffickers exchange Colombian pesos for dollars used by honest businessmen in Colombia to purchase goods in the Colon Free Zone in Panama or in the United States. The pesos are sold at a discount and the dollars purchased by the businessmen are then used to buy goods in Panama and the United States. The dollars generated by drug sales in the United States are then sent back to Colombia and the process is repeated over and over again. Experts estimate that some \$3 billion dollars are laundered in Panama every

4-

year and that as much as \$20 billion end up in American banks. Panama was one of the first countries to create a special financial unit to investigate suspicious financial transactions, but a lack of resources and trained specialists has hindered the government's ability to limit money laundering.

THE PRESENCE OF RED CHINA- In the last five years, powerful Chinese companies have invested millions of dollars in Panama. Recently the Hong Kong Shanghai Banking Corporation purchased the local branch of the Chase Manhattan Bank. Cable and Wireless, an English corporation with close ties to Hong Kong owns Panama's phone company. Hong Kong and China export 25% of all the goods purchased by the Colon Free Zone. Hutchinson Whampoa, a Hong Kong based company that operates ports worldwide won the right to operate the ports of Balboa and Cristobal on the Pacific and Atlantic entrances to the Panama Canal. Experts disagree on the level of influence the Chinese will have in Panama, but congressional investigators and the National Security Center note, that the contract they signed allows them abundant leeway in their operation of the port facilities. Hutchinson controls 50% of all stevedoring services in Hong Kong, a situation that lets them set container transport prices and may allow them to undercut their competitors in Panama. Li Ka Shing, Hutchinson's chairman is a key advisor to the Chinese leadership in Beijing. Some experts believe that Hutchinson will be able to affect canal operations and that they could impede the normal flow of vessels, a contention disputed by the Panama Canal Authority who insist that only they can determine the level of expediency in canal traffic.



5-

With America's retreat from Panama, the red chinese are quickly filling the power vacuum. Companies identified by the Cox Report as participating in industrial espionage or the purchase of restricted technology are active in Panama. COSCO, the chinese shipping company that services the Peoples Liberation Army sends 300 ships every year through the Panama Canal. They are investing heavily in Panama and have just started a new service from China to Europe via the canal. Other chinese companies will take advantage of the modernization of the Panama Railroad, while others will be bidding the operation of Howard Air Force Base, investments that could put them in a commanding position in Panama. The presence of red chinese companies may tilt the diplomatic balance in favor of Beijing. Currently Panama maintains diplomatic relations with Taiwan, but as the bahamian government just proved, a \$40 million dollar investment by Hutchinson Whampoa in port facilities led to a switch in its diplomatic allegiance from Taipei to Beijing. Continued investment by chinese corporations could greatly diminish the ability of the United States to influence events in Panama. The chinese community is already very influential and with the support of chinese companies and investmes this influence could increase. The government of Panama wants foreign investment, but as a recent poll shows, 81% of the population would welcome the return of the United States and would support a limited american military presence to aid the country in its war on drugs and to secure the colombian border. The key to any negotiations that would bring back american military forces to Panama is a fair economic arrangement between both countries.

AMERICAN INVESTMENT- The United States still has an opportunity to influence events in Panama through investment and foreign aid. Panama needs \$100 million

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dollars to fully implement a national security plan that would protect the colombian border and limit the activities of international drug traffickers. As part of the aid package to Colombia, the congress only included \$8 million in aid to Panama. The panamanian government needs to purchase helicopters, patrol boats, aircraft, radars and communication equipment and it needs to improve the training and equipment provided to the Border Police. A naval base to patrol the atlantic coast must be constructed, while radar coverage must be extended to cover the pacific area and the colombian border. On the pacific side the United States Coast Guard could be instrumental in reopening Rodman Naval Station, a modern naval facility located near the entrance to the Panama Canal. The Coast Guard could also be instrumental in helping the National Maritime Service improve its inderdiction abilities in panamanian territorial waters. American corporations could become key players in the bid to transform Howard Air Force Base into an international air cargo facility that would take advantage of its proximity to the canal and the Colon Free Zone to ship goods all over the world. Tax incentives and export import funding could help american companies invest in Panama, if Washington and the congress decide that Panama is still an important strategic partner for the United States. American companies ship more than 140 million tons of cargo through the Panama Canal every year. The canal is still very important to american commerce and to american prosperity. Many experts agree that a new strategic partnership between Panama and the United States is the key to the operation of a safe and efficient international waterway that is a marvel of modern engineering and yankee ingenuity.

7-

Many people in the United States and Panama would like the two countries to reestablish a strategic partnership to enhance canal security and to protect both nations from the threat of international drug traffickers. Organizations like the Center for Security Studies, The Conservative Caucus and the National Security Center have been instrumental in getting the issues before public opinion in Panama and in the United States. Let us hope that the elected representatives of the people in the U.S. congress examine the facts and work towards reestablishing a strategic alliance that will enhance the security of both countries.

**I. Tomas Cabal**

Professor Cabal teaches economics at the principal university in Panama (Universidad Nacional de Panama) and is also a leading expert on money laundering and corruption in Panama. His testimony gives a brief history of the Panama Canal, then focuses on the problems of money laundering and corruption in Panama (especially regarding Chinese corporations).

Mr. MICA. As you can hear, the buzzer has gone off for a vote. We want to have some time for questions, we have about 10 minutes for questions. I wanted to ask a couple, and we appreciate again your testimony and your coming before us today.

First of all, how would you estimate since the closure of Howard Air Force Base last May, a year ago, what would you estimate the amount of increased transit of cocaine and heroin to be through Panama?

Mr. CABAL. I would estimate that the figures in 1998 were 100 to 200 tons, 100 tons of cocaine and about 2 tons of heroin.

Mr. MICA. Additional.

Mr. CABAL. In addition; yes, sir. As you know, the heroin trade is 95 percent by human mules, people that swallow, so the authorities have uncovered in the last year several what we call defecation houses. These are small houses or apartments in which the drug runner brings his cargo, defecates it, they clean it up and they give it to somebody else, who swallows it and on to the United States.

Mr. MICA. Coming out of Colombia?

Mr. CABAL. What they do is disguise the origin of the traveler. It is one thing, if you come out of Colombia, you go into Miami or fly into L.A., New York, or Houston, you are certainly going to be looked over very carefully. But if you come out of Panama, they are not as rigorous.

Mr. MICA. You also described a disruption along the border and you said 1,000, was that Panamanians?

Mr. CABAL. No, these are Colombian citizens—

Mr. MICA. That fled into Panama.

Mr. CABAL. Yes, they are there currently hiding. What happens is the paramilitaries, the left and the right are fighting over control of the Caribbean, the access to the Caribbean, so they can ship their drugs and receive their weapons.

Mr. MICA. I also appreciate your testimony. I think you said about \$8 million is earmarked for Panama and some of the other surrounding countries.

Mr. CABAL. Yes. The original request was for \$30 million, and the Congress allocated \$8, and that is simply not going to get the job done.

Mr. MICA. I think you raise a good point about this spreading as we put pressure on Colombia and Panama. I think you cited very graphically, you just step across the border and you are scot-free from the Blackhawks and others. Again, we appreciate your testimony and your insight. Again, you're risking some of your personal well-being coming here today.

I want to yield at this time to Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much. Mr. Chairman, again, thank you very much for holding this hearing. I think that the drug issue overlaps into other areas of national security. And I am on the International Relations Committee and have spent considerable time on the other implications, but this is important in a number of areas and a number of levels.

You mentioned that 81 percent of the people down in Panama would like to see—

Mr. CABAL. That is the most recent CID-Gallop poll published in the local paper, 81 percent.

Mr. ROHRABACHER. Which indicates that the Americans were having a positive influence, not just for military security.

Mr. CABAL. Economic. We are in a severe recession as we speak, because \$354 million is no longer circulating in the economy.

Mr. ROHRABACHER. While we were there, we were playing a dominant role in Panama. People don't necessarily want us to dominate Panama, but our presence was a positive role. That influence that we had, and have now, just left. That void is being filled by—

Mr. CABAL. The Red Chinese, for example, have taken over the Russian listening stations in Lourdes in Cuba. The Chinese are now operating electronic eavesdropping stations that allows them to monitor Federal, military and commercial.

Mr. ROHRABACHER. They are involved in your banking system.

Mr. COBLE. Yes, they just bought out Marine Midland, which was mentioned by Congressman Barr, and they now just bought out Chase Manhattan, which is the second oldest bank in the Republic of Panama, right after Banco Nationale.

Mr. ROHRABACHER. And, as well, a company that controls both ends of the Panama Canal.

Mr. CABAL. And the phone company. Cable and Wireless has substantial amounts of Chinese money behind it.

Mr. ROHRABACHER. So the United States has walked away from one of the most strategic areas in this hemisphere, where both of the continents come together, both the oceans come together, walked away from people who liked us and wanted us to be there, and we are letting the presence be filled by Communist Chinese and by drug lords and gangsters.

Mr. CABAL. Russian gangsters who are now active in the Colon Free Zone. The Chinese triads. Panama has an extensive Chinese community that is the prey of the triads. They are involved in prostitution, illegal gambling, and illegal alien smuggling.

Mr. ROHRABACHER. One last question. Is illegal alien smuggling still going on?

Mr. CABAL. It has actually increased, Congressman.

Mr. ROHRABACHER. This is very disturbing. What is happening in Fort Sherman now? You mentioned what was going on before. What is happening now at Fort Sherman?

Mr. CABAL. Nothing. The facility is up for sale, for lease. There is talk of ecological development. But the runway is not being used, the building is not being used, and certainly the Panamanian border police is ill-equipped, ill-trained, and they need all the help they can get. They are a unique world-class facility that could be used by the Panamanians, that could be used by the Americans. The same with Rodman Naval Station. For example, the Coast Guard could be working there to help the interdiction in the Pacific area.

They could also help the Panamanians build a Naval base on the Atlantic side to stop the flow of drugs through the Caribbean.

Mr. ROHRABACHER. With the United States withdrawing from the role that it has played in Panama for so many years and stepping up of other forces as we have talked about, what kind of pressure is that putting on elected officials in Panama? Can you really blame them when the United States is not offering that anchor of stability and integrity that we did in the past?

Mr. CABAL. Certainly it is a substantial issue. The gentleman from the DEA clearly explained peso brokering. The Colon Free Zone does about \$11 billion of business a year, \$5 and \$5, import/export, \$5, \$6. That in an economy that barely reaches \$8 billion. So it is very, very important.

What it does, the Colon Free Zone is an area where money laundering is occurring, about \$3 billion every year, about half through the peso brokering mechanism explained before.

The other money laundering occurs in the banking area; and one thing the Panamanian Government, and the governments before this administration, have to take a hard look at their political commitment to put an end to money laundering. Bank secrecy laws, the Colon Free Zone, I mean, you have to have a commitment.

Panama does have one of the few financial investigative units, but they need money, they need training, they need specialists, they need communications. But there has to be a clear political commitment from the Panamanian Government to put an end to money laundering, and I don't see that happening. As long as that doesn't happen, it is going to go on.

Mr. ROHRABACHER. Mr. Chairman, let me note it is very difficult for a small country like Panama that's very vulnerable to powerful outside interests, it is very hard for those government officials to make that commitment when the United States basically has surrendered and run away and left the playing field to tyrants, to gangsters, to people who are antithetical to everything that we believe in.

Mr. CABAL. Congressman, there is a grave question regarding political contributions, where this cash is coming from and who it is getting elected.

Mr. ROHRABACHER. Thank you very much. Thank you, Mr. Chairman.

Mr. MICA. I want to thank you, Professor, for being with us today and, again, for offering your insight. You certainly have a very great knowledge of what is going on in Panama; and your experience in economics, I think, sheds a great deal of light for this subcommittee on the money involved, the trafficking involved and the influences that may be, in fact, corrupting Panama, and also the difficulty we have incurred since we have lost our forward operating locations at that point.

Mr. CABAL. Yes.

Mr. MICA. I know that other members had questions. Unfortunately, I am going to have to adjourn the hearing at this time, but we will be submitting additional questions to you for the record.

Mr. CABAL. I have a very good working relationship with the Congressman and his assistant. We are in constant contact. We have e-mail.

Mr. MICA. We may have additional questions from members of our panel. So we would like to make them part of the hearing.

Again, we thank you for your contributions today and for your appearing as a witness.

There being no further business before the Subcommittee on Criminal Justice, Drug Policy, and Human Resources at this time, this meeting is adjourned.

[Whereupon, at 1:15 p.m., the subcommittee was adjourned.]

[Additional information submitted for the hearing record follows:]

# Chinese Intelligence Operations

Nicholas Eftimiades

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The Beijing office (which is itself sometimes called a bureau) has considerable stature among the five divisions because its operatives target foreign nationals in Beijing. It also serves as the contact office for all the other divisions, meaning that these other area divisions must coordinate their activities with Beijing when they extend beyond a single area of operations. The Beijing division also assists Shenyang and is known for its use of "abnormal channels for collection." This refers to activities in the Beijing area such as the use of two hotels for collection purposes. One of those hotels is the Yellow Dragon (Huang Lung), which serves military intelligence officers training in or passing through Beijing. It also houses military intelligence personnel returning from overseas assignments. Recruitment targets are billeted in the Yellow Dragon to make the information-gathering process easier for the Beijing division's intelligence officers.

The five geographically defined divisions also conduct clandestine intelligence operations overseas. For example, the Shenyang division collects information on Russia, Eastern Europe, and Japan. These activities take place throughout China as well as in those overseas operational environments. These targets were no doubt selected based on the geographic location of Shenyang in northeastern China. Logically, North and South Korea should be targets of the Shenyang division; however, no information is available to support this assertion. One of the targets that made the Shenyang office famous is the Orient Express. Some of the workers on this train, which crosses northeastern China on its way to Russia and Europe, are either intelligence officers or recruited agents reporting to military intelligence officers in Shenyang.

The Guangzhou division also appears to collect against targets based on geographic proximity. Its primary targets are persons in Hong Kong, Macao, and Taiwan. Case officers make extensive use of commercial covers. For example, a vice president of the China Resources Holding Company (*Hwa Ren Jituan*) in Hong Kong is traditionally a military case officer from Guangzhou. This officer coordinates the collection activities of other intelligence personnel operating under Hwa Ren cover. The division maintains several other cover companies in Hong Kong and Macao as well.

The Shanghai and Nanjing divisions do not operate against nations in their immediate vicinities. Instead, they target Western Europe and the United States, respectively. Intelligence officers from these divisions are frequently required to travel in China and overseas. One reasonable

PATRICK T. HALL  
 SENIOR V.P.  
 COOPER T. SMITH CORP.  
 BRIEF SYNOPSIS OF  
 PANAMA CONCESSION  
 SUMMER OF 1996

In the early 1990's (1992-1993) Cooper/T. Smith was involved in negotiations with individuals/entities regarding the eventual Manzanillo International Terminal located on the Atlantic side of the Panama Canal. Although these relationships never materialized, Cooper did develop a strong interest in Panama and specifically IN the Port of Cristobal.

As a result of our interest, we began discussions with the Government of Panama on the possibility of obtaining a concession for the Port of Cristobal. These discussions took place during 1994 and 1995. Our interests were well received and we established a strong relationship with Dr. Hugo Torrejios, Director of Ports, as well as numerous other government officials.

In the summer of 1995, we were informed that the American Company, Bechtel Enterprises, had been retained by the Government of Panama to conduct a study on possible concessions for the Ports of Cristobal and Balboa (Pacific), as well as, the railroad crossing the Isthmus. We were further informed that at the conclusion of this study a public bid would be held with respect to the ports, and that we were one of the pre-qualified companies who would be allowed to bid.

As we awaited the completion of the study and the official announcement of the public bid, we were informed that Bechtel had been allowed to make a private bid encompassing both ports and the railroad. This was the spring of 1996. Shortly thereafter, we were informed by our local attorney in Panama that the Government of Panama was again interested in receiving our proposal. We were informed that Bechtel had presented such a low bid that the Government was insulted and the local labor unions were furious.

In April of 1996, the Government hired an independent consulting group, ICF Kaiser, to assist them in re-establishing the bidding process. In the meantime, we had begun discussions with International Transportation Services, Inc. ("ITS") regarding the possibility of joining forces on our bid proposal; thus, collectively bidding on both ports. ITS had been working together with a local Panamanian company, Pancanal Shipping Investment ("PSI") in negotiating with the Government of Panama on a private concession for the Port of Balboa. In fact, ITS and PSI had executed a Memorandum of Understanding with the Government with regard to the Port of Balboa.

In June of 1996, with ICF Kaiser's work complete, the Government called for an open bid. The bid was to encompass only with the two Ports, as the railroad concession had already been awarded. Our new consortium, Cooper/T. Smith/ITS/PSI, presented our bid on time and in the proper form as requested by the Government. Our bid was for both Ports, Cristobal and Balboa, as requested. With respect to the other bid packages received, there was a great deal of confusion as they were delivered at varying times and contained bids on specific areas within the two Ports. Due to the "inconsistency" in the

bids, the Government decided to re-bid the concession. This "new" (2<sup>nd</sup>) bid was due on June 18, 1996, and in an attempt to resolve the previous "inconsistencies", the Government made clear the criteria and the deadline for which the "new" bid was due. Again, our consortium presented its bid in a timely fashion and consistent with the criteria requested by the Government.

We are uncertain as to who actually bid on time; however, we were informed that Hutchinson (HIT) presented their bid approximately two hours after the deadline. Further, once opened, the Hutchinson bid was also determined to be less favorable than the Cooper/T. Smith/ITS/PSI bid.

Soon thereafter, June 20, 1996, we were informed by our local attorney in Panama that the publication "El Panama America" on that day's edition ran an article stating the following: NOTE: ITS is an American subsidiary of Kawasaki Corporation. STET.

[Translated]

"The government determined last night in principal two projects... and in addition, awarded to the Japanese-North American group Kawasaki Cooper/T. Smith the operation of the Ports of Cristobal and Balboa.

... the minister, Francisco Sanches Cardenas, revealed that the [mandatorio] Ernesto Perez Balladares announced before members of the Democratic Revolutionary Party, the concession of the Ports of Cristobal and Balboa to the group Kawasaki Cooper/T. Smith.

Kawasaki offered the payment of an annual rent of \$10 million, 9% of the gross earning of container cargo, 7.5% of the bulk cargo, a participation share for the State of 10% without manifest compromise of acquiring the equipment of the National Port Authority (APN), without a concrete monetary offer for the indemnification of the public employees that participated of the service to be privatized and without establishing the amount of the immediate investment nor the total for the project.

The President preferred the offer of Kawasaki-Cooper to that presented by Bechtel [which] proposed to operate integrally both ports and the railroad (Ferrocarril de Panama), while promising to implement an initial investment of \$11 million, 7.5% of the total gross earnings of entire project, promising to pay \$10 million for the equipment of APN, obligating themselves to \$30 million in order to indemnify the public employees and promised to make an immediate investment of \$110 million, \$155 million at five years and with a grand total investment into the project of \$560 million."

We were then contacted and requested by the government of Panama, through the office of Dr. Hugo Torrijos, to travel to Panama for the official announcement. Within a few days, Mr. Angus Cooper, II (Chief Executive Officer and Chairman of the Board of Cooper/T. Smith), Mr. Patrick Hall (Senior Vice President of Cooper/T. Smith) and Mr.

J. F. Weston, Jr. (In-House Counsel for Cooper/T. Smith) traveled to Panama City, Panama.

We were accepted in the office of Dr. Torrejos along with employees of our partner ITS and were officially congratulated by Dr. Torrejos of our award for the concession. During the meeting, Dr. Torrejos received a telephone call requesting his presence at another meeting. He asked that we please wait for him in his office in order for us to continue our celebration. Upon his return (approximately one and one half hours later), we were informed that he would have to recant his previous congratulations. He explained that due to some "lack of transparency" there would have to be another bid. He further explained that all bidders would receive a new set of criteria for the, "now", (3<sup>rd</sup> bid). Under extreme confusion as to the Governments actions, ITS submitted a "letter of protest" on behalf of the consortium clearly stating our discontent and concerns regarding the process in which the bidding took place. This letter was never answered. Further, we never received any new bid material and eventually resubmitted our June 18, 1996 bid package. This bid was delivered and opened on July 29, 1996.

Eventually HIT was awarded the concession. We were later informed that HIT merely doubled our June 18, 1996 bid as their offer on July 29, 1996. Further, we were informed that HIT was the only company to actually receive the promised new criteria for the (3<sup>rd</sup>) bid.

We have had little or no contact with Panama since this time.

## THOMPSON COMMITTEE HEARING

Santoli, Al

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From: Katzin, Caroline  
 Sent: Tuesday, June 06, 2000 1:56 PM  
 To: Al Santoli (E-mail)  
 Subject: CRH - CAMPAIGN FUND-RAISING - THOMAS R. HAMPSON

Excerpt:

Well, China Resources is a huge trading company, it's 100 percent owned by the government of the People's Republic of China. It's involved in everything from peanuts to property development and from minerals to machinery. It has hundreds of subsidiaries. Its sheer size dwarfs even the Lippo Group. Its purpose is to foster trade and to promote development of the mainland's economy. Through business ties it has established, the group seeks out technology that the country needs and buys it.

China Resources also has a more geopolitical purpose. It is well-established in the public record that the government of the People's Republic of China uses China Resources as an agent of espionage -- economic, military and political. If its agents can't buy the technology, they obtain it by other means. They acquire interests in companies in order to use them as surrogates, as well as to provide cover for covert operatives. A company is kind of like a smiling tiger; it might look friendly, but it's very dangerous.

SEN. LIEBERMAN: Okay. Final question, China Resources Holding Company. I believe you indicated that that holding company, which bought a 15 percent interest in Lippo Group in '92 and now I believe holds a 50 in the Lippo Hong Kong Bank, now owns a 50 percent interest --

MR. HAMPSON: Yes.

SEN. LIEBERMAN: -- had been used for espionage purposes by the Chinese government. What is the basis of that conclusion that you've made?

MR. HAMPSON: There's a number of published reports in the media about this. There was a BBC broadcast a few years ago, where it quoted intelligence agents on that particular subject. There were a couple of other references, too, that I can't -- I have it in my materials, but I can't recall the exact source.

Federal News Service

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JULY 15, 1997, TUESDAY

SECTION: IN THE NEWS

LENGTH: 4969 words

HEADLINE: HEARING OF THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE,

SECOND PANEL

SUBJECT: CAMPAIGN FUND-RAISING

CHAired BY: SENATOR FRED THOMPSON (R-TN)

WITNESS:

THOMAS R. HAMPSON, PRESIDENT, SEARCH INTERNATIONAL,

CHICAGO, ILLINOIS

216 HART OFFICE BUILDING

WASHINGTON, DC

BODY:

SEN. THOMPSON: Let's come to order, please.

The next witness will be Mr. Thomas R. Hampson. Mr. Hampson will be able to explain a little bit more about the organization of the Lippo Group.

Mr. Hampson, will you please stand and raise your right hand? (Witness is sworn.) Thank you very much. Senator Bennett?

SEN. ROBERT F. BENNETT (R-UT): Thank you, Mr. Chairman. For the record, Mr. Hampson, let's lay out your background and your qualifications. I understand you're president of Search International, a research and investigation firm. Will you tell us what that firm does?

MR. HAMPSON: Well, we're based out of Chicago, and it's a firm that I founded 14 years ago. We conduct research and investigations worldwide, and we specialize in qualifying prospective business partners or acquisition targets on behalf of our corporate clients. We also provide competitive assessment and business intelligence services.

SEN. BENNETT: Do you specialize in American companies that need information about foreign companies?

MR. HAMPSON: Yes, sir.

SEN. BENNETT: So we can look to you as an expert to understand how foreign commerce works and how foreign companies are organized?

MR. HAMPSON: Yes.

SEN. BENNETT: All right. Mr. Hampson, did you hear the testimony of the previous witness?

MR. HAMPSON: No, I didn't.

SEN. BENNETT: Well, let me characterize it because I'd like your comment on it.

As I saw it, coming from a business background myself, we have here a series of small firms. By small, I mean no one of them is doing more than a quarter of a million dollars a year in total revenue, and some of them doing substantially less, one of them doing less than \$50,000 a year in revenue. We have a series of them, a half-dozen or so, none of which has ever made any money. All of them have expenses that are in excess of their income, in some cases, substantially in excess of income. And yet they continue, from year to year to year -- with no action on the part of management to try to solve their financial difficulties.

The executive who seems to be connected with all these firms, earns \$90,000 a year, receives an annual bonus of \$230,000, and upon leaving, is given a severance pay approaching half a million dollars. In your research, have you come across any circumstances like that? Do you consider that a normal activity on the part of a foreign company trying to do business in the United States?

MR. HAMPSON: I haven't seen anything like that before.

SEN. BENNETT: This is not standard real estate operations, in your opinion?

MR. HAMPSON: No.

SEN. BENNETT: Would you like to apply for a job where you would get salary and bonus of that kind, presiding over companies that continually lose money?

MR. HAMPSON: I don't know that I would.

SEN. BENNETT: Well, I think that's a pretty good job, Mr. Chairman, to get that kind of income, and be presiding over companies that never, ever produce any kind of revenue.

Well, let's go on to the area that we want to go through with you.

SEN. THOMPSON: Could you pull your microphone a little closer, please?

SEN. BENNETT: There's been a lot of conversation about the Lippo Group, and we'd like you to explain to us what the Lippo Group is. Based on your background and your investigation of this, you're in a position to tell us. What is the Lippo Group?

MR. HAMPSON: It's a multi-billion dollar confederation of companies controlled by the Riady family of Indonesia. It's a conglomerate very much like AT&T, although it's not as large. Or ITT.

Also, there's no central company that manages and directs the various units. In fact, there's no real entity known as the Lippo Group.

Although there's no central structure, the group of companies is controlled by an interlocking network of family relationships. Mochtar Riady started the company more than 30 years ago by piecing together a group of different firms. He started with a retail banking base in Indonesia, but the Lippo Group has expanded to encompass banking, finance, insurance, property development, communications and manufacturing interests. The financial side of the business was intentionally developed and structured to facilitate international trade, initially in the Asia area, and later it was expanded into the West.

Although the principal figure in the Lippo Group is Dr. Mochtar Riady, an Indonesian of Chinese descent, today his two sons Stephen and James manage the entire Lippo empire. Stephen Riady is responsible for most of the Hong Kong operations of the Lippo Limited -- Lippo Group such as Lippo Limited and the Hong Kong Chinese Bank. His activities are primarily focused on banking and property development in Hong Kong and mainland China. James Riady is responsible for the Lippo Bank, flagship Lippo Bank of Indonesia and also Lippoland, which is headquartered in the Indonesian area and is developing property in Indonesia in a subsidiary of -- or a suburb of Jakarta.

SEN. BENNETT: What are they doing in the United States? Is it real estate development? Is it banking? Is it insurance? What -- what are --

MR. HAMPSON: Their primary operation in the United States is the Lippo Bank. It has

headquarters in Los Angeles, and then it -- but it has also several branches, one in San Francisco, San Jose, and Westminster, California.

SEN. BENNETT: Do they make money?

MR. HAMPSON: It doesn't seem that they make that much. I don't have access to their financial records.

SEN. BENNETT: Do you know of any American entity of Lippo that does make money? Based on public documents?

MR. HAMPSON: No, I don't personally.

SEN. BENNETT: So they're in the United States, but there's no evidence that they're making any money in the United States; their money is all made elsewhere in the world?

MR. HAMPSON: Well, no, I -- what I did was evaluate the public record documents that are available through a variety of on-line databases. And a lot of those specific financial records are not available.

SEN. BENNETT: I see.

MR. HAMPSON: They have -- you know, they are -- most of them are privately held corporations that don't produce any public documents that show their financial statements.

SEN. BENNETT: So it would be unfair for me to conclude that they are not making money on their American operations?

MR. HAMPSON: Yeah, that would be unfair, I think --

SEN. BENNETT: I see. I don't to be unfair.

MR. HAMPSON: -- at least from what I know.

SEN. BENNETT: Okay.

Well, what is the connection between Lippo and the People's Republic of China?

MR. HAMPSON: Well, over the past few years, the record is very clear that the Lippo Group has shifted its strategic center from Indonesia to the People's Republic of China. Lippo currently is involved in dozens of large-scale joint ventures on the mainland, including construction and development of apartment complexes, office buildings, highways, ports, and other infrastructure. Lippo's principal partner on the mainland is China Resources, a company wholly owned by the government of the People's Republic of China. The interrelationship of the Lippo and the government-sponsored companies, such as China Resources, has grown markedly since 1993. Lippo's first known business connection with the PRC-controlled companies was in late 1991, when the Hong Kong Chinese Bank attempted to involve China Resources in acquiring the Hong Kong branch of the Bank of Credit and Commerce International, better known as BCCI. The deal fell through when China Resources backed out.

However, in late 1992, China Resources purchased 15 percent of Hong Kong Chinese Bank. Subsequently, at a critical time, when the Indonesian interests were under great financial strain -- and indeed, there was a brief run on the Lippo Bank -- China Resources injected tens of millions of dollars into the cash-starved Lippo land. Finally, in mid-1993, China Resources increased its stake in the Hong Kong Chinese Bank to 50 percent.

Press reports indicate that China Resources paid 50 percent over the market price of this stock, more than a \$125-million premium. Since 1993, the Lippo Group and China Resources have grown closer and closer, with dozens of shared development projects throughout Mainland China. Just two weeks ago, Steven (sp) Riady announced that the name of the Lippo's Hong Kong Chinese bank would be changed to Lippo-China Resources to reflect that China Resources is now an equal partner.

By way of illustrating the change, I have prepared several charts. There is a 1992 chart, over here, on my right. I can't see it. But --

SEN. BENNETT: I can see it but can't read it.

MR. HAMPSON: Okay. Well, both the 1992 chart and the 1997 chart are analytical charts. They are intended to evaluate the relationship that exists between the various entities. I provided -- put the information in a very large database and established connections between the various groups, which show how the entities are related to each other and what direction -- ownership interest is involved. They are not intended to be flowcharts.

What I'd like to do is refer you to several exhibits. Exhibit Number 117, if you could put that on the screen, is a chart that shows the Lippo Group in 1997. And it greatly simplifies and makes more clear the relationships that existed at this time.

As you can see on the right of the chart, Lippo Limited, headed by Steven (sp) Riady and subsidiaries of Hong Kong China Bank; they are located on the mainland and involved in a number of different development projects in mainland China together. These are only a small list of those that are available.

On the left-hand side of the chart, you'll see the -- extreme left -- you'll see the financial activities, centered in Indonesia, that provide the Indonesian side of their financial network that they've set up.

In the middle is Lippo Land and the various -- or the two different development projects in Indonesia that Lippo has started back in about the mid-'90s.

All of these entities have connections to the People's Republic of China, and essentially that's what this chart over here shows in a very complicated way. However, that type of representation is extremely important to evaluate the detail of the relationships because it's from the detail that we get the general relationships that exist.

The second chart that you can see is Lippo Group in early 1992, Exhibit 118. You can see all of the major entities on these charts, but at that time there was no known business connection between the Lippo Group and China Resources, which is essentially the People's Republic of China.

SEN. BENNETT: Your point is that in the five-year period, Lippo went from a family-owned entity headquartered in Indonesia to a joint venture, in effect, with the Chinese government, with the primary source of activity headquartered in People's Republic of China. Is that a fair characterization of what you're saying?

MR. HAMPSON: Yes.

SEN. BENNETT: Tell us a little more about China Resources and what they can bring to the table as a joint venture partner.

MR. HAMPSON: Well, China Resources is a huge trading company. It's 100 percent owned by the government of the People's Republic of China. It's involved in everything from peanuts to property development and from minerals to machinery. It has hundreds of subsidiaries. Its sheer size dwarfs even the Lippo Group. Its purpose is to foster trade and to promote development of the mainland's economy. Through business ties it has established, the group seeks out technology that the country needs and buys it.

China Resources also has a more geopolitical purpose. It is well-established in the public record that the government of the People's Republic of China uses China Resources as an agent of espionage -- economic, military and political. If its agents can't buy the technology, they obtain it by other means. They acquire interests in companies in order to use them as surrogates, as well as to provide cover for covert operatives. A company is kind of like a smiling tiger; it might look friendly, but it's very dangerous.

SEN. BENNETT: Now let's talk about the Lippo activities in the United States currently, because your implication is that the China Resources, by virtue of its relatively new association with Lippo, can come through Lippo entities into the United States.

I don't want to lead you, but is that a fair characterization of what you're leading to?

MR. HAMPSON: It's possible. Right now, if I'd refer you to Exhibit 119, this is another chart that was prepared. This largely is developed from a document produced by Hip Hing Holdings Company. As I mentioned earlier, most of the operations of the Lippo Group in the United States are very closely held and private; there's not a great deal of information about them, and we don't know very much about their activities, at least I don't. I mean, there's not that much in the public record that's available. But you can see --

SEN. BENNETT: We now know that at least San Jose Holdings Toy Center and Hip Hing Holdings don't make any money and never have, based on the testimony we've had before.

MR. HAMPSON: Okay.

SEN. BENNETT: All right. Go ahead. I didn't mean to --

MR. HAMPSON: I was just going to point out that on -- you can see that the Lippo Bank in California is the primary -- really the primary active operation of the Lippo Group that I'm aware of, at least from the public record documents that are available. The rest of it are privately-held companies that all have ties back into the Lippo Group operations internationally.

SEN. BENNETT: Do you have any information on the public record that would indicate there was any activity on the part of the Chinese government through China, resources through Lippo, in the United States in any of these organizations?

MR. HAMPSON: I have no knowledge of that.

SEN. BENNETT: Do you have any knowledge that it has not happened?

MR. HAMPSON: No.

SEN. BENNETT: So that's something we'll have to pursue other than through public documents?

MR. HAMPSON: Yes.

SEN. BENNETT: Aside from the fact that your charts give us terrible eye strain -- (laughter) -- I want to thank you for coming to help us get a better understanding of exactly what it is we're dealing with.

Thank you, Mr. Chairman. I have nothing further.

SEN. THOMPSON: Senator Glenn?

SEN. GLENN: Mr. Baron?

MR. BARON: Thank you, Senator.



event, as far as I'm concerned, it shouldn't be legal. But the check comes in in 1992 and they hire somebody like you. How many weeks have you been working on this?

MR. HAMPSON: A couple.

SEN. LEVIN: A couple weeks. So they hire somebody like you for a couple weeks, say here's this check for \$50,000, and check the database and see what the sources are. But in any event, it does raise the question as to how -- when dozens or hundreds of checks come in, what is the vetting procedure which is reasonably expectable of a party or a campaign, because even your reasonably thorough public search of the public record doesn't disclose this kind of a figure.

Or what the gross or net figure could -- was in that particular year.

My next question is this: You've indicated that there's a greater focus now on China on the part of the Lippo Group. Is that correct?

MR. HAMPSON: Yes.

SEN. LEVIN: In the last five years. Is that fairly typical of a lot of companies -- that there's been a shift of focus in the last few years to China as an opportunity for profit? Is that happening with a lot of entities? Boeing, others have been mentioned. Is that --

MR. HAMPSON: A lot of companies are making investments in China. I haven't seen a lot of companies becoming partners with -- a company like China Resources, however.

SEN. LEVIN: You indicated China Resources, I thought -- didn't you say had hundreds of subsidiaries or hundreds of --

MR. HAMPSON: Yes.

SEN. LEVIN: And do you know approximately how many of those -- do you call them subsidiaries or joint ventures?

MR. HAMPSON: Yeah.

SEN. LEVIN: Do you know -- have you tracked the growth of those subsidiaries and joint ventures in the China ventures?

MR. HAMPSON: No. I only tracked those entities that I could tie into the Lippo Group.

SEN. LEVIN: Okay. So that you're not able to tell us, for instance, whether or not there's twice as many, five times as many, 10 times as many subsidiaries now that joint -- that China ventures is involved in as there were in 1992?

MR. HAMPSON: No, I wouldn't know.

SEN. LEVIN: All right.

Did -- in terms of the Lippo Group's income, do you know what percentage of the income or the assets of Lippo Group are now in China, compared to five years ago? MR. HAMPSON: It's very difficult to tell. I couldn't even begin to speculate.

SEN. LEVIN: Okay.

Thank you, Mr. Chairman.

SEN. THOMPSON: Senator Lieberman, we may have -- we have a vote on, but we may have time for you, if you want to --

SEN. LIEBERMAN: Thanks, Mr. Chairman. I'll try to do this quickly.

Mr. Hampson, I'm going back to that Harvard study, very briefly, on one of the exhibits, and that -- they list country representatives for the Lippo Group. They have five countries in it. Next to the United States -- this is as of 1992 -- John Huang is listed.

On the basis of the review you did, do you have any understanding of what it would mean for John Huang to be the country representative for the Lippo Group here in the United States? Was he as the chief officer or sales rep or --

MR. HAMPSON: I don't know.

SEN. LIEBERMAN: You can't tell. Okay.

Second, the Lippo Group and the individuals associated with it contributed substantial amounts of money to American political campaigns over the last several years -- amounts of money that are questionable or raise questions, because the company wasn't doing -- the Lippo Group wasn't doing that much business here in the United States.

But one of the theories raised does not go to China but goes to Jakarta in Indonesia. And the question I want to ask you, is, in your review, did you -- on the basis of your review, can you tell us anything about the relationship between the Lippo Group and the Indonesian government?

MR. HAMPSON: I didn't look at that.

SEN. LIEBERMAN: Okay. Final question. China Resources Holding Company. I believe you indicated that that holding company, which bought a 15 percent interest in Lippo Group in '92 and now I believe holds a 50 in the Lippo Hong Kong Bank, now owns a 50 percent interest --

MR. HAMPSON: Yes.

SEN. LIEBERMAN: -- had been used for espionage purposes by the Chinese government. What is the basis of that conclusion that you've made?

MR. HAMPSON: There's a number of published reports in the media about this. There was a BBC

Santoli, Al

**From:** Katzin, Caroline  
**Sent:** Tuesday, June 06, 2000 1:59 PM  
**To:** Al Santoli (E-mail)  
**Subject:** CRH - Intelligence Guide to Hong Kong

Intelligence Newsletter

June 26, 1997

SECTION: COMMUNITY WATCH; CHINA; N. 314

Intelligence Guide to Hong Kong

The best-selling French writer Gerard de Villiers has just published a new spy saga featuring his hero SAS, a book entitled Hong Kong Express that talks of a network which spirits Chinese dissidents out of China. Some experts noted that certain names of Chinese agents in the book are in fact altogether real. For instance, Zou Zhakai, intelligence coordinator with the New China News Agency (Xinhua) wins a mention. But Intelligence Newsletter can state he is not alone in playing a major role in Chinese intelligence in the colony which is to be handed over to Beijing in a few days. The main active Chinese services there are:

- The Xinhua agency. In addition to Zou, the agency has a Research Department headed by Yang Huaji. Still, the agency's work has been hampered recently by rivalry between clans from Fujian and Shanghai. And some months before the handover, Guoanbu (State Security ministry) beefed up its presence inside Xinhua.
  - Guoanbu: The structures operating in Hong Kong and Macao include three central departments in joint charge of operations, intelligence-gathering and storing information concerning Taiwan, Hong Kong and Macao. Number 1 bureau is headed by He Liang; No. 2 bureau by Zhan Yongjie and No. 3 bureau by Tian Jian.
  - Military intelligence under the wing of the general staff (Qingbaobu) and headed by gen. Ji Shengde. Like Guoanbu it organizes SIGINT intelligence operations (IN 313) under cover of the China Resources holding company. Among units of the People's Liberation Army which will arrive on the morning of July 1 will be English-speaking intelligence officers. Additionally, the General Staff's Liaison Bureau in Beijing carries out clandestine operations in Hong Kong.
  - Political intelligence will be handled by an outpost of the foreign ministry in Hong Kong that will be headed by Ma Yuzhen, former Chinese ambassador to London.
  - The united front work department (Tongyi Zhanxian Gongzuobu) of the Communist Party's central committee has dovetailed propaganda aimed at Hong Kong. Its activity is spearheaded by its regional office in Guangdong province, headed by Xiao Yaotang.
  - Economic intelligence is handled by the Inquiry Department of China Resources which is run by Xin Changjiang. But also contributing are staff from the Bank of China and the Ministry of Foreign Trade (MOFTEC), which works along the lines of Japan's MITI.
  - The Public Security service (Gonganbu) which has worked up to now in the visa section in Hong Kong is endeavoring to take over the local police through the intermediary of its service that works within Interpol.
- There are hundreds of other clandestine networks that work under trade or business cover and are highly difficult to identify as a result.

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